ANNUAL BUDGET
misplaced priorities, displaced outcomes!

ALSO:
ARINDAM CHAUDHARI’S
“DO DONI CHAAR BUDGET
— WHY AND HOW WE MUST
RESCUE FARMERS AND AGRICULTURE
SECTOR TO SAVE INDIA”
&
BEST OF THE IER 2010
there is no other b-school in india that gives placement to more students!

IIPM

INDIA'S GLOBAL B-SCHOOL

THE TIMES OF INDIA

Companies snap up non-IIM B-school grads

21st March, '09: BANGALORE: While the final placement season at the IIMs was grim this year, other B-schools based in Bangalore are celebrating — many recorded 100% placements. “This has been one of the most challenging times for placements,” said Dr. J.B. Sinha, Dean, IIMB. So far, 1,500-plus IIMM students across the country have been placed, with 44 bagging international offers and over 450 companies coming to the campus...

The Economic Times

IIPM has managed to place 1,442 students from its campuses across the country in 400 companies. Last year, 2,600 students had got offers by this time... In 2008, while IIPM had the second highest international placements (165) among the B-Schools in India, its Delhi campus boasted of the highest (125) no. of international placements as a single institute...

1500 FROM IIPM GET JOBS

10th March, '09: Mumbai: While graduates from IIMs are settling for jobs in PSUs, 1500 out of the 2600 students of IIPM have already been placed on campus. In view of the economic slowdown IIPM has additionally focused on Small and Medium Enterprises (SME) across metros, tier 2 and tier 3 cities, industrial town and villages... The key recruiters this year were ADAG - Reliance Life Insurance, American Express, Axis Bank, Deutsche Bank, HDFC Bank, Hindustan, Unilever Ltd., Wipro KPO, Yamaha Motors, India Bulls Securities... The SME recruiters this year were IBIBO Web Pvt Ltd., NIIT Education centre, India Infoline, Time Education and Mahindra Club, among others...

IIPM SET TO BEAT economic slowdown!

12th March, '09: EXPRESS NEWS SERVICE: After setting new benchmarks in B-school placements last year, the Indian Institute of Planning and Management (IIPM) has innovated to re-establish its superiority in placements in the current period of reduced growth. Data shows that 1,500-plus students at IIPM have already been placed on campus while the result of about 200 post-campus interviews is awaited. Over 450 companies have made recruitments in the current campus placement session. The average package so far has been Rs 4.2 lakh per annum which, though a fall from the last year’s average of Rs 5.2 lakh, is fairly considerable especially in view of the current challenges. International placements currently stand at a commendable figure of 44. This year was one of the most challenging years for B-school placements... IIPM also made a special effort to mentor and counsel students to increase the conversion ratio. Skill-driven modules on retail banking and modules on consumer retailing and insurance were introduced. IIPM’s placements cell, Strategic Management Group (SMG), engaged a larger number of companies than it did last year...

IIPM: DARE TO THINK BEYOND THE IIMs!
THE GREAT INDIAN DREAM

“A Society where man is at the centre of all activities, a society where exploitation of man by man has been abolished, where he is cared for as an in a family, where “to each according to his need” is practised, a society where non bureaucratic National Economic Planning is given due importance for sustainable optimum growth, where adequate social safety net is a reality and yet market’s advantages are fully taken care of for creativity and entrepreneurship, such a society can be truly described as humane society and the vision as “Humanism”.

Dr. M K Chaudhuri
The Great Indian Dream, 2003, Macmillan India, New Delhi

“Let us together dream of a country where poor are not just merely reduced to statistics but where there are no poor. Let there be a day when small children are taken to a poverty museum like science museum where they shiver at the plight of the way people used to live in the last millennium. Let this dream take the form of a revolution and as long as our dreams keep outweighing our memories, India would remain a young and dynamic nation on this path to global equality. And for this let the wait not be for eternity. Let us together achieve this in the next 25 years.”

Prof. Arindam Chaudhuri
The Great Indian Dream, 2003, Macmillan India, New Delhi
IIPM: THE FUTURE IS HERE

Since its incorporation (1973), IIPM has been an institution with privileged traditions, in the diversity of its fraternity, its global outlook, its world class research and its commitment to alternative national economic planning process.

It can be said, without much oversimplification that there are no ‘underdeveloped economies’. There are only ‘under managed’ countries. Japan 140 years was ago was an underdeveloped country by every material measurement. But it very quickly produced management of great competence, indeed of excellence. The policy inference is that ‘management’ is the prime mover and ‘development’ is the consequence. At IIPM, every one considers that development is a matter of human energies rather than economic wealth. And the generation and direction of these human energies is the task of ‘management’. Accordingly, we formed The Great Indian Dream. Unlike any other dream, this is one dream which each one of us are determined to realise and that too in our own lifetimes. Each bit of cynicism and condemnation from pessimists makes us evolve even stronger and determined.

All our endeavours and initiative is towards realisation of this dream, where in we produce committed ‘bare foot’ managers and entrepreneurs who are needed by nation, on an consistent basis. As an educational institute, we aim at initializing a three dimensional personality in IIPMites, viz.

Pursuit of knowledge in economics and management
Commitment to economic, social, political and technological upliftment of masses and
Cultivation of taste for literature, fine arts and etc.

Economists often have limited access to the practical problems facing senior managers, while senior managers often lack the time and motivation to look beyond their own industry to the larger issues of the global economy. It has set before it the twin tasks: to reorient education and research towards the needs of both the private and public sectors and to establish the link between the National Economic Planning and the development of private enterprises in Indian economy. IIPM dares to look beyond, and understands that what we teach today, other adopt tomorrow. IIPM’s service output (education, research and consulting,) is a unique combination of two distinct disciplines: economics and management. Through this integration, IIPM helps guide business and policy leaders in shaping the Indian and global economy, bringing together the practical insights of industry with broader national and global perspectives.

A hallmark of IIPM is that it is armed with the comparative advantage of engaging the committed, passionate and brightest management post graduates and undergraduates, who pursued the education at IIPM and subsequently joined it, to realise the dream. IIPM alumni, spread across the globe, holding crucial decision-making positions in the corporate sector, are bonded by the one ideology of making a positive difference, turning that ideology into a movement itself.

The India Economy Review is another humble initiative towards the realisation of the same and more distinctly, engaging the broader publics and pertinent stakeholders.

SEARCH, SIEVE, SCHEME...

In economics, like in everyday existence, it is imperative to hear, perceive and consider what others have to say. Each issue of The IER brings together a selection of important contributions on a particular theme, authored by some of the brightest minds in different areas of Indian economics. The provocation for publishing these issues arises from the fact that over the years economic journals have become copious, exclusive and expensive. Most of the journals and a good many of the books have gone beyond the cerebral and financial reach of general students and other scholars. Most of them are primarily being raised and debated here.

Much about India is transparent enough. One does not require detailed criteria, cunning calibration or probing analysis to pinpoint India’s problems and recognise its antecedents. There is in fact much that is perceptible about India. But not everything about India is even if simplistic is so simple. The learned reader would appreciate the fact that India is like an elephant that looms too large to be grasped within a distinct structure and paradigm the constituent parts of which would fail to reveal the entirety. Obviously and observably, no suggested solution to any protracted and complex socio-economic problem will satisfy all sides and stakeholders evenly. Consequently, there exists an enormous diversity in economic thinking and perspectives, as is also reflected in the viewpoints of different expert contributors in this issue. The intended outcome of this exercise is to facilitate the invention, improvement, deliberation and dissemination of innovation in economic thinking and national economic planning, insisting merely on well-grounded, open and unbiased debates, without predetermined outcomes. It is impossible to do justice to the entire field of Indian economics in a single issue. The topics selected for this issue are those which are of critical and immediate importance to India. Majority of them were freshly and exclusively written. Encapsulated, it is a constructive attempt aimed at helping India actualise its promises and potential. The editors hope that this issue of IER profiler the reader a flavour of dynamism and excitement and persuade her/him to participate in the journey towards realising ‘The Great Indian Dream’. At the same time, it illuminates the terrible, practical problems of India and Bharat.

ACKNOWLEDGEMENTS

The IIPM Think Tank likes to thank all the internal faculty who have been instrumental in coordinating with many authors all across India and according their unstinted support. The assistance of Prof. R.Krishnan (IIPM Chennai), Prof. Amlan Ray (IIPM Lucknow) and Mr. Robin Thomas (IIPM Ahmedabad) has been more valuable than, perhaps, they realise.
Dear Readers

In today’s world if any company fails to generate value for its shareholders, it is being mercilessly stripped down in the brouses, then why is it that when a government year after year creates negligible value for its stakeholders (tax paying citizens) should be allowed to get away? The fact is that, if one has to draw a simile then there is no difference between the Union Budget and AGMs of listed corporations. If on one hand the Chairman of the listed company discusses the balance sheet of the company in front of its shareholders then on the other hand the Finance Minister reads out the balance sheet of the nation, in front of the representatives elected by the stakeholders of the nation. So if on one hand the Chairman of the company announces the achievements of the previous year and the plans for the future, similarly the Finance Minister does the same. But then this is where the similarity ends and the reality begins.

When it comes to listed companies, corporate governance is mandatory. A listed company needs to follow disclosure norms laid down by SEBI to ensure that they are accountable and responsible for every action that they take. This is only to ensure that the shareholders’ interest is safeguarded in such a way that they aren’t left in the dark and no one messes with their investments. More so, a shareholder has every right to question and recommend during an AGM and in the worse case, if he does not see value in staying invested, he has the right to walk out with his money (by selling his shares). Now, consider the case of India’s stakeholders. In spite of making contributions through taxes (both direct and indirect) to the Indian Government, he has to depend upon his elected representative, who in most cases are found to be yawning during the budget sessions. The fact is our Union Budget is more like an one sided affair with least or no intervention from the citizens, for whom and by whom comes the existence of the budget. If one goes by the reports published by International Budget Partnership (IBP), apprehensions would be iota-free regarding how key budget documents like the pre-budget statement, year-end report and annual audit are either missing or are in sub-standard condition — which is one prerequisite when it comes to transparent and accountable budget.

In most of the Nordic and Scandinavian countries, where budget transparency is high and is more effective rather shall I say is more corporatized, the citizen participation is so high that budget document are not framed until public passes the pre-budget statement. In South Africa, the pre-budget statement is coupled with the Mid-Year Review. Similar procedure is followed by Brazil, Kenya and other nations. Talking about audits, in India citizens have only one way to find out about the way their money is used — The RTI — which is also not enough and eventually have no rights to challenge the wrong doings of the government, if found. Take for instance, France produces a comprehensive audit report (certification des Comptes de l’Etat) while New Zealand, Russia and UK follow similar fool-proof procedure. Additionally, participation by various classes of people helps in proper scrutiny of the budget with respect to building priority and focus areas. Many countries follow public expenditure tracking system that gives a perspective to its citizens to monitor the public fund expense and further acts as a tool to raise voices against ineffective and inequitable management of funds.

The significance of such systems is even more pertinent in our case as lack of transparency and accountability has only benefited the middle and upper middle class at the cost of masses. And whatever is being doled out in the name of masses has being blatantly embezzled for personal gains. The budget has become an exercise to take contributions from all and to distribute amongst a few! Happy reading.

Best,

Prasoon S. Majumdar

(As it appeared in The Sunday Indian)
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ALTERNATIVE BUDGET

ARINDAM CHAUDHURI
Presents

THE DO DOONI CHAAR BUDGET

WHY AND HOW WE MUST SAVE FARMERS AND AGRICULTURE TO SAVE INDIA
Often, the most profound and transformational changes can be achieved by taking simple and easy decisions that are usually very hard to take. Those simple decisions become hard to take because we — particularly more so in India — have this inexplicable and inexcusable habit of trying our best to avoid reality; to blink and look the other way even when harsh realities stare at us unblinkingly. While brainstorming for the multiple award winning movie *Do Dooni Chaar*, we were very clear that the lead characters must be confronted with choices that are gut wrenching even though they appear simple. I personally think the movie touched a chord with people across India because it highlighted the power of simple truths and simple facts; and because it enabled ordinary Indians to transcend obstacles by sticking to simplicity, honesty and integrity; and most importantly because the characters had the guts to face facts and reality as they are and call a spade a spade. We could have loaded *Do Dooni Chaar* with liberal doses of jargon, semantics, polemics, clichés, grandstanding and dissembling. I am proud that our team didn’t succumb to such temptations.

I have spent days reliving the *Do Dooni Chaar* experience as I struggle to think of a theme that will become the highlight of my eleventh consecutive Alternative Budget. The three previous themes of my Alternative Budget proved to be a major hit with thousands of readers and opinion makers. All three had a touch of ‘naughty’ in them. In 2008, we had asked the Finance Minister to ‘Ban the Budget’. In 2009, we showcased India’s seeming helplessness in fighting corruption by requesting the Finance Minister to present a ‘Khao Aur Khilao Budget’. And in 2010, I do admit we decided to ride on the immense popularity of that blockbuster — and yet eye opening movie — by presenting ‘A Budget for Three Idiots’. This time around, some colleagues suggested that we ride the Cricket World Cup fever and call my 2011 Alternative Budget the ‘De Ghoomake Budget’. There is little doubt that the theme would have been catchy, and even rib tickling. Eventually, what persuaded me not to opt for the obviously popular and catchy theme is the
kind of Indians this Alternative Budget is dedicated to. And the realization that those Indians deserve a less catchy and more simple, yet powerful theme. Hence the decision to call my 11th Alternative Budget the Do Dooni Chaar Budget. (Of course, some colleagues were insisting I call it the Do Dooni Paanch Budget as a tribute to Indian politicians!).

Revisiting Lal Bahadur Shastri: Jai Jawaan Jai Kisaan
Before I go any further, let me add here that this Alternative Budget is dedicated to that most unsung and unheralded of Indian politicians who personified the power of simplicity — Lal Bahadur Shastri. Yes, it is dedicated to the man who coined the term ‘Jai Jawaan, Jai Kisaan’ and made it immortal. Sadly — like most things in India — even this immortal term has been systematically degraded down into a tired cliche that people spout more out of indifferent rote than any conviction...

The simple fact is that India has degraded the Indian farmer into a comic book cliche at best and a disgustingly treated step child at worst. The simpler, and more glaring fact is that unless the Indian farmer and Indian agriculture participate in economic well being and prosperity, India doesn’t have much of a future, either as an economy or as a nation. In fact, along with education and health, the most neglected area for every single Finance Minister since 1947 has been agriculture. The disgraceful neglect of the three is the most important reason why India ranks near the bottom in virtually all indicators of human development. My alternative budgets in the last few years have repeatedly pointed out and suggested innovative ways in which India can improve its dismal record on health and education. This year, the Alternative Budget will focus on the Indian farmer and Indian agriculture.

Of course, if you go by recent media reports, I might just have picked up the wrong topic to highlight this year. After all, statistics reveal that the agriculture sector will grow at about 5.5% in the current year; one of the best performances in recent years. In fact, it is the unusually high rate of growth of the agriculture sector that will ensure that the GDP of India grows at a healthy 8.6% in the current year. Then again, the media has been filled for months with screaming headlines about high and persistently rising prices of food and vegetables. Who can forget the shock — both to the psyche and family budgets — caused by onion prices shooting up to Rs.90 a kg in recent times? If you do go to the market to buy vegetables, you must have realized that prices of every item have virtually gone through the roof. Add to this the jingoistic claims made by our policy makers that India ranks in the top 5 globally when it comes to the production of food, vegetables, milk, poultry, cotton, tea and what not.

But as many of you know, the reality is starkly different, and shocking. Let me start with data compiled by the National Crime Records Bureau (NCRB). The latest year for which data is available is 2009. In that one year, 17,638 farmers committed suicide — one almost every half hour. The state that took the lead — as always — in the numbers of farmer suicides was Maharashtra, the state to which our Union Agriculture Minister and current...
cricket Czar proudly belongs (See Chart). The top three states in terms of farmer suicides are Maharashtra, Andhra Pradesh and Karnataka — one ruled by Congress in alliance with the Pawar led NCP, the second ruled by Congress and the third ruled by the BJP. In less than 15 years since official NCRB records were kept (state governments never bothered to keep proper records of farmer suicides till 1997), more than 2,50,000 farmers have committed suicide. You can be sure that the figure for 2010 will be higher, and that for 2011 even higher. Worse, everybody involved in this dirty and shocking numbers game knows that state governments routinely ignore or under report cases of farmer suicides. The actual figure is bound to be much higher. There can be no more damning indictment of our economic policy making and successive union budgets than this simple, stark and shocking fact about the extent of farmer suicides.

There would be little doubt that a large reason for this is the extent of indebtedness of farm households across India. ‘Reliable’ data for the same are available only from the National Sample Survey No. 59 of 2003. In that survey, Andhra topped the charts with more than 80% of farm households being indebted (Around that time, Andhra had also acquired the dubious reputation as the number one farmer suicide state of India). In the same period, 61% of farm households in Kerala, 65% in Karnataka, 51% in Madhya Pradesh, 74% in Tamil Nadu and 55% in Maharashtra were found to be indebted. Things and times have changed since then and independent research now suggests that Maharashtra, Andhra and Karnataka now lead the table in indebtedness of farmers. They also happen to be the top states when it comes to farmer suicides.

**Beyond Farmer Suicides**

There is a larger picture that is hidden behind these numbers; and that is the shameful neglect of the agriculture sector by the Government of India, and by successive finance ministers of the country, though they all regularly pay lip service to the cause of the farmer. The most telling indicator of this is shockingly declining levels of investment in this crucial sector. One particular set of data shows how pathetic the situation is. During 1980-81, the share of Gross Capital Formation (GCF) in agriculture out of total GCF was just about 18%. Now, 18% for a sector on which close to two thirds of the total population depend on livelihoods is bad enough. What happens subsequently is worse. The percentage keeps falling steadily since then and by the end of the 20th century, it is a pathetic 5.8% (See Chart). Even as the Indian farmer has suffered ignominy after ignominy, the government has kept on reducing investments in agriculture. By the time, the UPA came to power in 2004, there was a lot of talk of turning things around. And, during the Eleventh Five Year Plan (2007-12), there was talk of a substantial increase in investments in agriculture. The two finance ministers since 2004, P. Chidambaram and Pranab Mukherjee have used every Budget speech they have given to announce more and more fancy schemes for the farmer and the agriculture sector. In

As per NCRB data for year 2009, some 17,638 farmers committed suicide — one almost every half hour
fact, it was proudly announced that the allocation for agriculture and allied sectors in the 11th Five Year Plan was raised to Rs.50,924 crores, up from Rs.21,068 crore during the 10th Five Year Plan. Yet, the mid term review of the 11th Five Year Plan officially admits that the share of agriculture and allied sectors in total plan allocation has not budged a millimeter from the 2.4% it was in earlier five year plans. So much for the government claims about really caring for the farmer and trying its best to bring about a transformation in Indian agriculture.

There are some more shocking facts that I would like to highlight about agriculture. The first is the abysmal performance of India as compared to other countries when it comes to productivity. Even the top states of the country in terms of productivity, Punjab and Haryana, perform very badly when compared to China and quite pathetically when it comes to countries like South Korea, Japan, Australia and the United States, to name just a few countries (See Chart). But let’s not confine ourselves to the usual comparisons and go on a spree of belittling India by merely comparing it with other countries that have delivered performances that should make our politicians and policy makers hang their heads in shame. Let us look only at statistics from within India to understand why agriculture is facing such an unprecedented crisis.

We all knew that the Green Revolution was a reality by the 1970s and India had finally broken out of the famine trap by then. We also know how politicians, policy makers and analysts keep reminding us of the wonders of Green Revolution and how it made India self sufficient when it comes to food. That much is true. But what is hardly ever talked about in policy circles and the media — barring some honorable exceptions — is how Green Revolution is history and how all the fruits of that endeavour have already been frittered away. Between 1980 and 1990, the average annual growth in the per hectare yield of wheat was a commendable — if not spectacular — 3.1%. During the period from 1990 to 1999, the growth rate in yield declined heavily to 1.83%. Worse, between 2000 and 2009, the average annual yield growth rate in wheat crashed to a meager 0.68%. Everybody knows that spectacular growth in wheat production and yield was one of the highlights of the Green Revolution. Even official data now clearly indicates that growth has almost completely tapered off. Rice has not performed much better. During the 1980 to 1990 decade, average annual growth rate in yield was 3.19%; it crashed to 1.34% during the next decade before recovering marginally to 1.61% during 2000-2009. This steady and consistent decline in the growth rate of yields is the principal reason why India lags so miserably behind other major nations when it comes to farm productivity. And it is also the major reason why farm incomes have not been going up in a manner they should.

Look at it another way. In the 60 years between 1950 and 2010, food grain production went up by a factor of 4.5. In the same period, production of steel went up by 65 times; the output of cement soared by about 60 times and the generation of electricity went up by more than 140 times (Just for your information, agriculture accounted for 31% of total electricity consumed in India in 1995. By 2008, the share had crashed to 24%). Interestingly, even the consumption of fertilizers — used only in agriculture — went up by more than 70 times in 50 years between 1960 and 2010 (See Chart).

The Irrigation Scam:
Will the CAG Please Take Note?

The obvious question we would ask is: Why
are yields in agriculture stagnating even though there is such a massive increase in fertilizer consumption? The blame lies entirely with the government and successive finance ministers. And we can dig up numerous instances of how policy makers in India have neglected, ignored and degraded agriculture in India. But just one example will suffice. I will take the liberty of quoting former Finance Minister P. Chidambaram when he presented the first UPA budget back in 2004. He said, “The Accelerated Irrigation Benefit Programme (AIBP) was introduced in 1996-97 and was allotted large funds year after year. Yet, out of 178 large and medium irrigation projects that were identified, only 28 have been completed.” Chidambaram went on to announce how irrigation and the completion of stalled irrigation projects would become the top priority for his government. The fact is, his government has done nothing to change this pathetic situation and was in fact not revealing even more embarrassing statistics about the state of irrigation in India. Recently disclosed official data reveal the following: the government spent more than Rs.1,30,000 crore between 1993 and 1998 on major and medium irrigation projects. In the same duration, the area irrigated by canals (supposed to be fed by major and medium projects) declined from 17.6 million hectares to 15.3 million hectares. Just look at the shocking numbers: successive governments have spent more than Rs.1,30,000 crore on irrigation projects and the actual area under irrigation has fallen (See Chart). We all know where the money must have gone! It’s another scam! More shocking, ‘official’ data indicates that farm area fed by tube wells has gone up by more than 70% in the same period. We all know where the money meant to dig tube wells goes to! Even more shocking, the actual use of groundwater — where farmers use natural ponds, lakes and techniques like water harvesting — has increased by less than 10% in the same period. The simple fact is: there is no money to be made from natural ground water sources!

By now, even these selected morsels of data related to the agriculture sector in India would have convinced even the most cynical that successive finance ministers have played a cruel joke on the Indian farmer. If you add to this tale of calumny the equally shocking neglect on the front of human development indicators like education, health, sanitation and basic infrastructure like roads and electricity, it is clear that Indian politicians, politicians — and even the media — don’t care a fig about the Indian farmer and Indian agriculture. I have given data on the pathetic access rural Indians have to education, health and infrastructure many number of times in the past to recount it again in detail. Suffice to say that 85% of Indians below the poverty line including about 45% below the destitution line (the government’s definition of the poverty line at 400 rupees per head per month) live in villages; that almost 60% of rural India is illiterate and more than 75% of rural households don’t have access to clean drinking water and basic sanitation.

This alleged concern for the poor and the aam aadmi would have been a joke were it not such a cruel travesty. And I
think, it is now the historic duty of the Finance Minister to redress such wrongs as fast as possible. The honourable Finance Minister Pranab Mukherjee is well aware that the Marxists will be decisively thrown out of power from West Bengal in elections very soon after he presents his budget. He would also know that voters-mostly farmers and rural households-have got fed up of the lies and false promises of the Marxists who claimed to care for the poor and the downtrodden. So, I would think it makes even electoral sense for Pranabda to start doing simple kinds of things in his budget, if the Congress is serious about its belief that Rahul Gandhi is destined to be the Prime Minister after Lok Sabha elections in 2014. Quite simply, his priorities should be simple and stark: lets rescue and revive the Indian farmer both from the trap of low productivity-low incomes and poor education & health and unemployability in the 21st century except as virtual bonded labour in NREGA programs.

**Saving the Indian Farmer**

In keeping with the *Do Dooni Chaar* theme, I would like to keep my suggestions simple, and short. My Alternative Budget would address two issues: raise productivity in agriculture so that incomes of farmers rise at least moderately, if not as fast as the denizens of Shining India; equally important, provide quality education and health care to children of farmers so that they can compete with other Indians for both jobs and entrepreneurship skills in the next decade. Both can be achieved with simple steps; all it needs is political vision, administrative integrity and that simple-but often tough-job of calling a spade a spade. And I can lay down those steps in just a few paragraphs that will follow.

Quite obviously, a lot of money is required for what I am proposing. The farmer and his world have been so badly neglected for so long that only a massive increase in resources can begin to make him catch up. And we don’t need or want the kind of false promises made earlier by previous governments and finance ministers — like the one about doubling Plan allocations for agriculture during the 11th Five Year Plan only to admit later that the sector still accounts for 2.4% of Plan allocations despite tall talk, grandstanding, polemics and clichés.

In the Union Budget presented for 2010-11, the Finance Minister Pranab Mukherjee had allocated a total of Rs.12,836 crore; up from Rs.10,527 crore in 2009-10 for agriculture, allied activities and irrigation. Add that fancy term ‘rural development’ and you get a total Budget allocation of about Rs.67,000 crore. That is less than 15% of the total funds allocated by the Finance Minister in 2010-11. And this is

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<td>2004-05 <em>(p)</em></td>
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<td>2005-06 <em>(p)</em></td>
<td>15.2</td>
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<tr>
<td>2006-07 <em>(p)</em></td>
<td>15.1</td>
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despite the stated concern of the UPA government about the distress being faced by rural India — which is the real India.

In my Alternative Budget, firstly I would therefore increase the allocation for the Rural Indian — mainly farmers — by a straightforward Rs.100,000 crore a year.

The obvious question is why? Well, everything has to be in some context. And the context here is that rural India needs 150 million jobs to be created. As a committed government our aim should be to do this in a span of five years and not 65 years.

Thus, we have to create 30 million jobs a year. In rural India still a job can be created by investing about Rs.33,750 per job.

This would mean the necessity for an additional 1,00,000 crore per year. Half of the money would be invested every year towards improving physical infrastructure in rural India — including effective irrigation facilities, better and functional roads, a vast network of cold storages and regular supply of electricity. The other half would be every year towards improving social infrastructure in rural India — including much better access to education, health and sanitation. The first would lead to a dramatic improvement in productivity in rural India and result into vastly superior income levels for farmers. The second would lead to a dramatic improvement in human development indicators in rural India. And both will create jobs, removing the massive rural unemployment from India.

Do I care about the five percent top Indians and the corporate sector? Frankly speaking I don’t. With about 85% of Indians living in poverty its time we worked genuinely for them. So this alternate budget is for our farmers and poor. And poor live in cities too. So I would suggest another 1,20,000 crores to be allocated for 25 million jobs to be created for the urban unemployed.

In urban India the cost of creating a job dramatically multiplies to about Rs.2,40,000 per head. Thus, to create five million jobs per year, we would require the amount I just mentioned.

The urban poor need another thing apart from employment. They need dignity of existence so that another Slumdog Millionaire is not made on India by western imperialists. For that we need to budget another additional Rs.24,000 crore per year for five years to create 15 million urban flats of minimum 250 sq. feet each.

Though I don’t want to care much about

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Indian PM Manmohan Singh and (Inset) former Telecom Minister A. Raja, who was arrested for his involvement in the 2G scam.
urban India in this budget, since Pranabda will in any case do enough; yet I want to focus on one burning issue of this year. Corruption. And the only and only solution for corruption is a functional judicial system. Corruption and greed are globally prevalent, yet it touches far less lives in the USA than in India simply because the American judicial system is functional and ours is dysfunctional. In America they have ten times more judges per million people than in India. If we are to try and achieve such standards we need to have about 1,00,000 more judges. It sounds huge but is surely achievable again in a span of five years. And to have 20,000 additional judges per year we have to budget for approx. Rs.6,000 crores per year additionally assuming that the expenses around a judge and his office assistants put together is definitely not more than Rs.30,00,000 per year.

Thus the total additional funds required is about Rs.2,50,000 crores. First and foremost, these funds should have been made available from our existing budget of more than 6,00,000 crores since it pertains to 85% Indians. Secondly, a huge amount of these funds will come from duplication of allocation in various schemes like NREGA etc. However, I will assume the government is not willing to do so and the entire fund has to be generated through new sources. So how do we do that?

**How the Future Will Arrive**

In keeping with the simple is best philosophy of *Do Dooni Chaar*, I will firstly suggest just one very simple and long overdue revenue raising proposal — just do away with the subsidies on LPG, Kerosene and Diesel. They have led to huge distortions in the economy and have absolutely not benefited the so called beneficiaries for whom the subsidies were allegedly meant. Rather, you have cases where honest officials being burnt alive when they have tried to stop the theft of subsidized kerosene. In 2010-11, the combined subsidy for all three would amount to a little less than Rs.100,000 crore. As simple as that. Just one decision from Pranabda after consultations with Sonia Gandhi and Manmohan Singh could make it happen.

The second source, I will suggest, is legalizing all the black money stashed abroad by giving a simple 10% tax payable in five equal installments of a mere two percent each! With two key riders. First, that government will take genuine steps to recover the money stashed abroad and all black money recovered after one year will be nationalized. And second, that there will be measures in place to ensure that future generation of black money becomes almost impossible. And of course, with a functional judiciary, no one will go unpunished. With something as high as an estimated Rs.75,00,000 crores stashed abroad, this will lead us to a huge new revenue stream of a minimum of Rs.7,50,000 crore in five years — or Rs.1,50,000 crore per year, making up for the balance required to my proposals into action.

Of course, in the longer run, we will have to devise simple and innovative ways to ensure that the funds allocated for the farm sector are used properly and effectively. And the only way to do that is by truly empowering the beneficiaries. In my 2006 and 2010 alternative budgets, I had argued that the government must spend huge amounts of money on popularizing

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**Growth Rate in Crop Yield (in %)**

<table>
<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Rice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-90</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>1990-2000</td>
<td>3.0</td>
<td>2.5</td>
</tr>
<tr>
<td>2000-09</td>
<td>2.5</td>
<td>2.0</td>
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Both wheat and rice have shown a decline

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Workers working on separate NREGA projects. Although the scheme provides employment to villagers, it is virtually like bonded labour, and provides no real long term solutions for the upliftment of India’s poor.
the use of the Right to Information Act so that Indian citizens can monitor the performance of programs and schemes that are meant to benefit them. More specifically, in my ‘Budget for Three Idiots’ in 2010, I had actually suggested a novel and innovative carrot and stick approach to ensure better performance of social welfare schemes. My logic was simple — even corrupt Indian officials are human beings and will respond to the right incentives. For example, I had suggested a Rs.1 lakh incentive per year for teachers who delivered the best ‘pass’ and ‘retention’ rates in village schools. The total annual expenditure for such a scheme would amount to just Rs.5,000 crores across India. Of course, the rider I had added was this: the Rs.1 Lakh incentive would be disbursed only after five years when it has been proven that the teacher has been genuinely successful. The prospect of an additional income of Rs.1 lakh per year, along with appreciation and admiration of peers, would be a great incentive for teachers to compete amongst themselves to deliver the best results. I had also suggested in that Budget that NREGA funds be used to construct schools and health care centers with labourers whose children would actually use them working on them.

I would extend the same logic to all projects, programs and schemes operating in rural India. For instance, engineers working on rural road construction would earn huge cash incentives if ‘their’ roads are good and remain functional even after a few monsoons. Of course, I would use the stick too: assets of all those teachers, engineers, supervisors, overseers and technicians who would look after cold storages, electricity lines, irrigation projects, road maintenance and repairs and the delivery of health, education and sanitation. I am utterly confident that this can all happen in just 10 years. Of course, it would take enormous political will to take these simple steps.

Some of you might feel a sense of anticlimax at this moment. But as I explained right at the beginning of this piece, the simplest and most powerful steps do not take lengthy arguments, clichés, jargon and polemics to be argued. Just think about it. No one can deny that the Indian farmer needs to share spoils of globalization. What happens if farm productivity in India touches the level of China? The annual income of the Indian farm sector would simply double very quickly. This would have a huge impact on the other sectors of the economy as well, and India’s GDP can actually grow at a rate much faster than 10% every year. The truth of it all is that, in the real sense, it is also going to benefit the corporate sector immensely. For once the poor have purchasing power, it is the corporate sector which will reap the benefits like the Chinese corporations are doing.

The real question is: will our system make an effort to go back to the Do Dooni Chaar ways or stick with the current obsession with Do Dooni Paanch? (The article first appeared in "Business & Economy". The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)

**Subsidies in LPG, kerosene & diesel have only led to huge distortions in the Indian economy**

Poor people in line for LPG. In India, subsidies in LPG, kerosene and diesel have hardly helped their intended beneficiaries, and they should be done away with.
The poor are too vulnerable to be left at the mercy of either the Government or the market. Inclusive growth needs a sustained and concerted effort jointly steered by both the State and the Free Enterprise.
In 2011 we complete two decades of economic reforms. And the mid-year analysis of the finance ministry projects the growth rate to cross nine percent this fiscal, supported by the robust agricultural growth. India has indeed come a long way in terms of economic growth. This, however, at best calls for only a cheer and a half. Softer indicators — literacy, health, aspirations — all are registering good progress. This is a generation of relative abundance. Ignore the statement of Obama about India being an emerged economy; it was more loaded with public relations nuances. But ours is an emerging young nation with two thirds Indians being below 35 years of age. While the west faces a chilly demographic winter, we are on the cusp of a cheerful demographic spring.

What’s the Good News?
It is an India full of goodies — better consumption and lifestyle, spending power, opportunities, and the proclivity to splurge. The growth is spreading to smaller towns as well. The remix generation networks socially, yet continues to draw inspiration from Mother India — Ayurvedic massage in a premier spa and Paani Puri with Vodka in them. There is reason to be optimistic.

As a nation and a society, we are undergoing huge social and political change. New generation
While India has witnessed unprecedented economic growth, it is trailing on essential social parameters of development.

Of young educated Indians are entering public life in every sphere — government, business, academic and media. These youngsters have grown up in a liberalised economic environment. They have seen information flows and communication channels multiply exponentially. In this brave new world, individuals have become zealous and protective of their individual rights. There is greater demand for openness, transparency, honesty of purpose, and accountability. Business has found the courage to fight back against the government as the media has collected its wits to expose the misdeeds of both the government and the business. Free markets for profit seem to have delivered, perhaps?

And Beyond the Smokescreen?
Well, poverty ratio has gone down. Poor, the value conscious bottom of the pyramid consumers, can be simultaneously converted into resilient and creative entrepreneurs so that they can fend for themselves with dignity. The argument is rather intoxicating. Alas, but, it is actually only a very romanticised view of poor and their poverty. 80 percent of Indian population has access to merely 20 percent of healthcare. 17 percent of Indian villages do not have even primary schooling facilities. 200 million people in India lack access to safe drinking water, and 33 percent Indians suffer from lack of sanitation. So while India has witnessed unprecedented economic growth since the mid–nineties of the previous century, it is trailing on essential social parameters of development. Inclusive growth remains elusive.

Addressing social issues will require mainstream intervention models that need to be implemented on a gigantic scale. The key to inclusive growth and social cohesion is creating millions of productive jobs at adequate wage levels. Taking shelter behind vacuous figures like 9.4 percent labour force is unemployed in India is like living in a make believe world. The traditional Western notion of unemployment is of only limited use in India. The Govt. survey that reported 9.4 percent unemployment figure also tellingly reported that 436 out of 1000 persons were either only seasonally employed or in ad-hoc type of enterprises. Clearly the percent figure failed to capture intermittent unemployment and seasonality.

More Government, or Less?
The current phase of better economic performance is the appropriate time for the Government to put in place effective social protection measures. One of the positives of state led programs such as MGNREGS is their potential to serve as building blocks for a comprehensive social protection framework. A basic social protection floor, including monetary support for the unemployed and the low paid will be a critical state intervention to create fairer and better functioning labour markets.

Addressing social issues will thus require mainstream intervention models that need to be implemented on a large scale. Each year for the next three decades nearly 16 million will enter Indian labour force. But without a commensurate increase in education and training aimed at the acquisition of skills relevant to future job markets, Indian growth will not be inclusive. These potential job seekers will face a labour market where 94 percent of employment is in the low productivity informal sector. Poor are actually vulnerable consumers who
need social, regulatory, and legal mechanisms to protect themselves. By excessively emphasizing on micro enterprises perhaps the state is simply trying to abdicate its responsibility towards poverty eradication. While not for a moment advocating a return to the statist policies of the 60’s and 70’s, what we are suggesting is that the market has to be supplemented by conscious workings of the visible hand. An unaffected play of the market, as we witnessed recently, led to October 2008 like events.

Out of all the major roles normally assigned to the state — planning, producing, facilitating and regulating — the Government cannot afford to excuse itself from any of these. Indicative planning, public and merit goods production, support to market forces, and tighter (not slacker) regulating regime must remain the state preserve.

**And Let the Market Forces Help**

On the other hand, for inclusive growth the poor must be connected to the market through suitable infrastructure. Universal access to quality basic services — education, water, health, and sanitation — is essential to include all Indians in the growth story. In the past govt. and Non government organisations have contributed to formulating and implementing solutions to some of these issues. But due to many reasons, success has eluded them in significant measure. Why not tread an alternative path then?

For a continental size country like ours, inclusive growth is a good business opportunity actually. Private enterprises should serve under-penetrated markets with customised and cost effective solutions, leveraging the potential of untapped resources while enhancing social benefits. While the Government will be required to play a key role in broadening access to economic opportunities and build resilience of the most vulnerable against economic shocks, the market driven forces of growth should be able to access the social sector through marketisation of these activities.

The Government must also realize that India’s subsidy architecture promotes fiscal recklessness, waste, and corruption to a greater degree than it does social good. Redistributive disbursal of state largesse largely misdirects resources that are better spent on building schools, hospitals, irrigation, and the like. Social funding, which more than doubled between 2004-10, needs funding less through borrowing — which crowds out the private sector — and more through revenue efficiently mobilised. The less the Government hampers or presides over marketed economic activity, the more it can fulfil its real brief: delivering education, health, infrastructure, and equal opportunities. Else, the HDI score for India will remain depressingly low (119, currently), illiteracy at 30 percent and 77 percent of the population having per capita consumption of less than Rs. 20 per day.

Remember, India’s HDI value of 0.519 when adjusted for inequality becomes almost 30 percent lower. While you are having your caviar, throw some crumbs in my direction too, please!

Will our budgeting exercise ever tilt in this direction? Well the sense of sceptism is rather overbearing for this author. *(The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)*
A See-through Budget!

India has a long way to go for making its Union Budget a ‘Pareto-Optimal’ budget, for now, we need to at least increase the transparency.
There is no denying to the fact that there exists a symbiotic relationship between “good governance” and “social development.” And this relation between these two factors largely depends on how the policies are formulated and then implemented. In most of the democratic countries, India included, policy formulation is generally done annually some of which are implemented through the Union Budget. When it comes to budget and policies in the backdrop, what plays a vital role are how well are these policies implemented and executed. However, it is here that the real malaise creeps in.

Proper disclosure of budget document even before officially declaring the budget allows scrutiny of the policies

Budget being one of the single most significant policy document of the policy makers speaks volumes about the objective and reconciliation efforts. But then, in India, most of the time, this “single most significant policy document” fails to sync with social development and very often confines itself as a tool (for corporate and powers that be) for filling coffers for a select section of the society.

Given such a gloomy scenario, it’s very important for the government to make proper disclosure of budget document even before officially declaring the budget. This not only allows proper scrutiny of the policies and above all allows people’s participation at various levels. In simple words, higher budget transparency is the fundamental essence of democratic-budget. According to the OECD’s recommendation of best practices “governments should produce the general intent document” and should come out with a pre budget report — that would encourage debate and clarify the objective of the annual budget — followed by monthly reports — that tracks the implementation of the policy announced — and then a mid-year report — that reveals comprehensive analysis along with economic forecast. Finally there should be a year-end report — that checks government accountability and is essentially audited by a supreme body. Along with these a pre-election and long term report would make the whole procedure more transparent.

On Open Budget Index, one of its kind survey that measures the transparency of budget, India features as among those nations that provide only significant information to its citizens during budget. Further, it scores 67 (out of 100) in budget transparency. Taking numbers into perspective, except for enacted budget document India fails to produce any other important report. Still, our budget doesn’t have a custom of producing pre-budget statement that further impacts citizens’ participation. Citizen participation is largely confined to lobbying done by corporate and industrialists and the entire idea of civil society’s participation is kept at bay. Even the important reviews are ignored and if produced are most of the time either sub-standard or remains unaudited.

When it comes to allocating resources for social sector development, India either creates development schemes and/or provides the target audience with sops and subsidies. After a few mathematical calculations it would be
really vivid as to how these sops and subsidies never reach the target audience, mainly because of opaque and leaking supply chain management. For instance, if the Central government distributes its entire allocation (given to subsidies) directly to the beneficiaries, they would have received nothing less than Rs. 2000 per family. This would have eventually brought them out of poverty line. For instance, if the total allocated money (Rs. 31,036 crore as per the budget 2010-11) for Sarva Siksha Abhivyan (SSA) were to be distributed directly to 192 million children (or 19.2 crore children) who officially come under the ambit of SSA, then each student would receive more than Rs. 1600 each year! Same is the case with PDS, NREGA and other similar developmental schemes. Corruption at different level (among these developmental schemes) forces the BPL people
to bribe the administrations for basic necessities. As per recent survey, poor in India pay Rs. 8000 million to access basic necessities and services — which is again equal to more than Rs. 12,000 per family. Going by the fact that a family needs 35 kg of food grains per month, then the food wasted over the years (since 1997 till 2010) could have fed 25,000 lakh families in one year, or

2500 lakh families over the last 10 years! This would have also been enough to feed 830 lakh BPL families (with 35 kg grains per month) over the next thirty years! Even the 61st National Sample Survey shows that merely 44 percent of the BPL families have BPL cards and ironically 17 percent of the families in the rich group too have BPL cards.

These budgetary leakages not only echo how the entire budgetary exercise is highly perforated and allow blatant corruption practices but also as to how it is really non-democratic. Corruption in health care schemes, mid-day meals schemes, NREGA and almost all possible schemes are omnipresent. This brings me to an interesting analysis.

When I regressed OBI (open budget index scores) of various countries with their CPI (corruption perception index scores) produced by Transparency International, I found a positive relation. A country with high OBI fares very well in CPI and same is the case with democracy. Similarly, a simple linear regression using Ordinary Least Square estimators tells us that countries with high OBI scores have very high scores on democratic index of the Economist. The same holds true for HDI index. A regression analysis shows R value of 0.64 between OBI & CPI, 0.36 between OBI & HDI and 0.59 between OBI & Democratic index. Take for instance, the United States, which has a high OBI score of 82 also fares well in HDI with 0.902, CPI with 7.1 and Democracy Index score of 8.18 out of 10 while India manages to get an OBI score of 67 and poor HDI score of 0.519 and a very low score of 3.3 on CPI and 7.28 on Democracy index.

This empirically proves that a transparent budget goes a long way in improving human development status of the nation along with checking corruption in the nation. And above all, a transparent budget is a democratic budget! Our budget fails to obtain a “Pareto-Optimal scenario” (given an initial allocation of goods among a set of individuals, a change to a different allocation that makes at least one individual better off without making any other individual worse off) as it dents the budget and expenditure of the great Indian middle class and is highly non-transparent when it comes to corruption and black money. 

### A simple linear regression shows a positive co-relation between the OBI and CPI, HDI and Democratic Index

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*Source: International Budget Partnership, 2010*
Higher commitments in the Union budget is no guarantee that overall budgetary commitments will rise due to fungibility at state level — the way forward

Post structural-adjustment reforms the social sector budgets of Union and State governments have moved southwards despite the underlying assumptions of macro-economic reforms that with liberalization and privatization of the economy the State would be able to devote more resources to the social sectors. The economic reforms liberalized and privatized but they also reduced considerably the net income that the State could generate from the national income — the Tax:GDP ratio declined from a peak of 15.93% in 1989-90 to a low of 13.31% in 1998-99, though since then it has incipiently crawled back to the earlier level in 2009-10. So the default casualty was the social sector, which despite the health missions and the sarva siksha abhiyans, have not recovered from the budget deficiencies they have encountered in moving towards universalization of health and education access.

The UPA-1 period showed an intent for social reform by starting the various flagship programs but could not raise the required budgetary commitments for realizing them. The political will was clearly missing. The 2nd avatar of UPA is trying to push further the flagships with at least having committed significantly higher resources (we only know budget estimates and we have to wait to see actual expenditures to know if northward movement is really happening) but the risk is that higher commitments in the Union budget is no guarantee that overall budgetary commitments will rise. The UPA-1 period saw increased allocations from the Centre in social sectors but at the state level we saw fungibility happening, so overall the allocations either declined or remained stagnant. This is important because the main financing of social sector budgets comes from state governments and hence social sector expenditure analysis and assessment is incomplete without looking at state budgets.

The Reserve Bank of India’s annual review of State Finances brings this out very clearly. Tables 1 and 2 from the RBI’s latest study and Table 1a from the DEA’s Indian Public Finance Statistics clearly bring out the compression in development and more specifically social sector spending. The data in these tables clearly highlights the failures of UPA-1 in reversing the trend of declining social sector spending, and the latter is most starkly evident in healthcare.
spending wherein the decline is huge in state budgetary commitments, a plunge from one percent of GDP during 1980-85 to 0.5% of GDP in 2005-10. There is presently a lot of talk about universal access to healthcare and the 12th Five Year Plan has set up a High Level Expert Group on universal healthcare coverage to recommend a blueprint and financing of such an initiative. The UPA government has been promising scaling up public health spending to up to three percent of GDP since 2004 but it has managed to move overall public health spending since then from 0.9% to just about one percent of GDP in six years, despite a robust economic growth rate of 8-9% in GDP and a rising Tax:GDP ratio. Will the coming budget demonstrate a shift in the trend? Unlikely, because the health budget is not just about the Central budget, it is more about the states committing much higher resources to healthcare and the politics across the states does not seem to indicate a shift in that direction for the time being. So what is needed to be done to change gears for making the health budget matter? This paper will try to suggest a health financing strategy that budgets in coming years at both Central and State level should adopt.

**Health Sector Budgets**

The present government at the Centre has committed to spend up to three percent of GDP on healthcare in its Common Minimum Program Declaration by 2012. This is a commitment of the Central Government. Given the fact that the Central Government currently spends about 25% of the public health budget this works out to 0.25% of GDP. To maintain this ratio the Centre’s health budget would have to triple to 0.75% of GDP. Further under NRHM, the Central government has committed that it would escalate its share to 40% of all public health expenditure by 2012. This would mean 1.2% of GDP or Rs. 780 billion at 2010 prices, much more than what all state governments and the Central government combined spending presently. This would mean a five-fold increase in Central government health spending — something unlikely to happen by 2012.

So what is likely to happen to health sector allocations in the coming 2011-12 budget of the Central Government? The same that happened to 2010-11! In 2010-11 the Central government health budget was estimated at Rs. 25154 crores, of which grants to states was about Rs.7700 crores making the net expenditure of the Central government Rs. 17454 crores. The state government allocation, including central assistance for the same year was estimated at Rs.46000 crores, making the national public health spending by Ministries of Health to amount to Rs. 63454 crores, with the Central Government share being 27%. Going by past trends one expects a 10-15% increase in nominal terms, with a most optimistic scenario taking the share of the Central Government to 30%. This is the most one would expect but this would still be around one percent of GDP. Thus no real progress in terms of the UPA target is expected. The contribution of the states which currently bear the main burden of public health spending is also not likely to increase substantially. With the exception of states like Mizoram, Sikkim and Goa, most states spend far too less on healthcare of its citizens (see Table 3). In fact what one has been witnessing under NRHM has been that when the Centre increases its allocations, many states respond by reducing their own leading to fungibility and hence there is no progress.

Another key factor which is critical to higher social sector spending is the Tax:GDP ratio. Worldwide the experience shows that countries with high social sector spending have Tax:GDP ratios of over 30%. Only such a level of tax revenues can help meet the global standards of public spending of five percent of GDP for health and seven percent for education. Presently India’s Tax:GDP ratio for Central and state governments combined is less than 17% of which more than half is spent on core functions of the State like...
Table 1: Trends in Revenue Expenditures of State Governments from 1980 to 2010

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<td>1. Education, Sports, Art and Culture</td>
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<td>0.1</td>
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Source: State Finances – A Study of Budgets 2009-10, Reserve Bank of India, Mumbai, Feb 2010 pp 76

government administration, justice, law and order, organs of the state, defense, external affairs, finance etc. This leaves very little for assuring economic and social rights. Thus apart from the need to increase allocations for the social sector there is the imperative for raising substantially more tax revenues which will make the former possible. Therefore the 2011-12 budget should also look at reining in larger revenues from the rising incomes and the high economic growth rate.

To accomplish the above the tax base definitely needs to be expanded substantially but more immediately better tax compliance and reduction in revenues forgone through various tax incentives and rebates needs to be focused on. In the 2010-11 budget statement we saw that revenues forgone by the Central government alone were estimated at over 85% of tax revenues with an increasing trend from the earlier years (Table 4); even if we can rein in half of this we would have enough resources to meet the budgetary targets for universal access for health, education, welfare and other social spend-
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<td>401999</td>
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<td>762765</td>
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<td>287837</td>
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<td>35140</td>
<td>39379</td>
<td>40175</td>
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<td>49622</td>
<td>54266</td>
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<td>As percent of GDP</td>
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<td>3 Total expenditure * (1+2)</td>
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<tr>
<td>i) Education, family welfare, medical &amp; public health, and water supply &amp; sanitation</td>
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<td>iii) Defence</td>
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<td>2.4</td>
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<td>4 Total expenditure net of lending</td>
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<td>28.6</td>
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* Excludes self-balancing item and transfer to funds.

The Ratios to GDP at market prices are based on CSO's National Accounts 2004-05 series and prior to 2004-05 are based on old series of CSO's National Accounts 1999-2000 series.

Source: Indian Public Finance Statistics, DEA, Govt, New Delhi, 2010 pp 16
Table 2: Composition of Social Sector Expenditure of States 1990-91 to 2009-10

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<td>76,107</td>
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<td>5,662</td>
<td>6,608</td>
<td>7,271</td>
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<td>(e) Housing</td>
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<td>561</td>
<td>689</td>
<td>837</td>
<td>907</td>
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<td>(f) Urban Development</td>
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<td>727</td>
<td>791</td>
<td>848</td>
<td>1,102</td>
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<td>852</td>
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<td>6,777</td>
<td>6,568</td>
<td>7,526</td>
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<td>(g) Welfare of SCs, STs and OBCs</td>
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Total Social Sector Expenditure (1+2+3) 35,132 39,255 44,468 49,451 55,143 63,975 71,896 81,427 98,127 1,13,690


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#### II. Economic Services (a+b)

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Source: State Finances – A Study of Budgets 2009-10, Reserve Bank of India, Mumbai, Feb 2010 pp 135-136
quantity irrespective of their actual requirement. Or if ten different specialists are available instead of 60 for ten Rural Hospitals then a couple of hospitals may get a gynaecologist, another may get a general surgeon, a third may be allotted a paediatrician etc. and that defeats the purpose of providing comprehensive healthcare. Thus instead resource allocation should be made on the basis of appropriate costing. Thus a fifty bedded hospital to be run optimally (say at 80% occupancy rate) requires at least Rs. 500,000 per bed per year, that is Rs. 25 million per such hospital. The local health authority should be allocated that amount for such a hospital and then it is their responsibility to acquire the necessary staff, drugs, maintenance of equipment etc. Similarly for a PHC to provide comprehensive curative and preventive primary health care services it would need about Rs. 200 per capita. Thus if it covers about 30,000 population then it should get Rs. 6 million. What we are trying to get at is that allocations for healthcare facilities have to be based on realistic costing for provision of quality care. The costing is indeed an elaborate exercise but it has to be done. If allocations are not made in this rational way then the pumping of more resources into the system will not help significantly and will lead to much more waste of resources. Thus increases in allocations have to go hand in hand with structural changes in how the allocations are assigned and spent for greater benefit.

So once we have greater resources and a better strategy to use them, then how much do we need for the health budget at the national level? Based on field studies and analysis of expenditures in reasonably well run hospitals and health centres from both the government and not-for-profit private sectors we are making the following projections for budgetary requirements for national healthcare system run primarily with publicly financed resources.

**Table 3: Amount Spent by the States Under Social Services - Health & Family Welfare**

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<td>Haryana</td>
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<td>1.1</td>
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<tr>
<td>Punjab</td>
<td>829</td>
<td>308</td>
<td>1.1</td>
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<td>Rajasthan</td>
<td>2027</td>
<td>306</td>
<td>1.1</td>
</tr>
<tr>
<td>Karnataka</td>
<td>1773</td>
<td>335</td>
<td>1.2</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>2289</td>
<td>346</td>
<td>1.2</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>2895</td>
<td>349</td>
<td>1.3</td>
</tr>
<tr>
<td>Manipur</td>
<td>107</td>
<td>396</td>
<td>1.4</td>
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<tr>
<td>Tripura</td>
<td>139</td>
<td>409</td>
<td>1.5</td>
</tr>
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<td>Kerala</td>
<td>1528</td>
<td>444</td>
<td>1.6</td>
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<tr>
<td>Nagaland</td>
<td>135</td>
<td>450</td>
<td>1.6</td>
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<tr>
<td>Uttar Pradesh</td>
<td>414</td>
<td>487</td>
<td>1.7</td>
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<tr>
<td>Meghalaya</td>
<td>131</td>
<td>524</td>
<td>1.9</td>
</tr>
<tr>
<td>Jammu and Kashmir</td>
<td>647</td>
<td>573</td>
<td>2.1</td>
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<tr>
<td>Himachal Pradesh</td>
<td>482</td>
<td>699</td>
<td>2.5</td>
</tr>
<tr>
<td>NCT Delhi</td>
<td>1491</td>
<td>857</td>
<td>3.1</td>
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<tr>
<td>Puducherry</td>
<td>162</td>
<td>1350</td>
<td>4.8</td>
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<td>Sikkim</td>
<td>82</td>
<td>1367</td>
<td>4.9</td>
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<td>Goa</td>
<td>222</td>
<td>1388</td>
<td>5</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>171</td>
<td>1425</td>
<td>5.1</td>
</tr>
<tr>
<td>Mizoram</td>
<td>171</td>
<td>1555</td>
<td>5.6</td>
</tr>
<tr>
<td>Total For All States</td>
<td>32085</td>
<td></td>
<td></td>
</tr>
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</table>

Source: Comptroller and Auditor General, Combined Finance and Revenue Accounts of Union and State Governments 2008-09, CAG, New Delhi, 2010

So once we have greater resources and a better strategy to use them, then how much do we need for the health budget at the national level? Based on field studies and analysis of expenditures in reasonably well run hospitals and health centres from both the government and not-for-profit private sectors we are making the following projections for budgetary requirements for national healthcare system run primarily with publicly financed resources.

**Projection of Resource Requirements**

The projections we are making are for the fiscal year 2009-2010. The population base is a little over 1.18 billion. There are over 1.58 million doctors *(of which allopathic are 780,000, including over 250,000 specialists)*, 1.4 million nurses, over 1.5 million hospital beds, 600,000 health workers and about 25,000 PHCs with government and municipal health care spending at about Rs. 700 billion *(excluding water supply)*. The projections include almost doubling the present publicly controlled health infrastructure through a single payer mechanism to purchase healthcare services from both the public and private healthcare providers.

**An Estimate of Providers and Facilities**

What will be the requirements for a universal
Delivering Promises

Can we deliver promises for a health care system at the national level?

- Family medical practitioners (GPs) = 500,000
- Epidemiological stations (PHCs rural and urban) = 50,000
- Health workers = 600,000
- Health supervisors = 125,000
- Public health nurses = 50,000
- Basic hospitals = 24,000
- Basic hospital beds = 1.2 million
- Basic hospital staff:
  - general duty doctor = 144,000
  - specialists = 144,000
  - dentists = 24,000
- nurses = 432,000
- Other technical and non-technical support staff as per requirements, including about one million CHWs as link workers in the villages and urban wards. (Please note that the basic hospital would address to about 75% of the inpatient and specialist care needs, the remaining will be catered to at the secondary/district level and teaching/tertiary hospitals)

One can see from the above that except for the hospitals and hospital beds the other requirements are not very difficult to achieve. Training of nurses, dentists, public health nurses would need additional investments. We have more than an adequate number of doctors, even after assuming that 80% of the registered doctors are active (as per census estimates). What will be needed are crash CME programs to facilitate integration of systems (there is no reason why the AYUSH doctors cannot be involved at the primary care level) and reorganisation of medical education to produce a single cadre of basic doctors. The PHC health workers will have to be reoriented to fit into the epidemiological framework. And construction of hospitals in underserved areas either by the government or by the private sector (but only under the universal system) will have to be undertaken on a rapid scale to meet the requirements of such an organised system.

An Estimate of the Cost

The costing worked out in Table 5 is based on known costs of fully functional public sector and NGO facilities. The FMP costs are projected on the basis of employed professional incomes. The actual figures

<table>
<thead>
<tr>
<th></th>
<th>Revenue Foregone in 2008-09</th>
<th>Revenue Foregone as a percent of Aggregate Tax Collection in 2008-09</th>
<th>Revenue Foregone in 2009-10</th>
<th>Revenue Foregone as a percent of Aggregate Tax Collection in 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Income-tax</td>
<td>66901</td>
<td>11.08%</td>
<td>79554</td>
<td>12.60%</td>
</tr>
<tr>
<td>Personal Income-tax</td>
<td>37570</td>
<td>6.22%</td>
<td>40929</td>
<td>6.48%</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>128293</td>
<td>21.25%</td>
<td>170765</td>
<td>27.04%</td>
</tr>
<tr>
<td>Customs Duty</td>
<td>225752</td>
<td>37.39%</td>
<td>249021</td>
<td>39.43%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>458516</strong></td>
<td><strong>79.95%</strong></td>
<td><strong>540269</strong></td>
<td><strong>85.56%</strong></td>
</tr>
</tbody>
</table>

Source: Govt. of India Budget 2010-11

Table 4: Revenue Foregone (Tax Expenditure) during 2008-09 and 2009-10 Central Government, India

<table>
<thead>
<tr>
<th></th>
<th>Revenue Foregone in 2008-09</th>
<th>Revenue Foregone as a percent of Aggregate Tax Collection in 2008-09</th>
<th>Revenue Foregone in 2009-10</th>
<th>Revenue Foregone as a percent of Aggregate Tax Collection in 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
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<td>79554</td>
<td>12.60%</td>
</tr>
<tr>
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<td>37570</td>
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<td>40929</td>
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</tr>
<tr>
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<td>128293</td>
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<td>170765</td>
<td>27.04%</td>
</tr>
<tr>
<td>Customs Duty</td>
<td>225752</td>
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<td>39.43%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>458516</strong></td>
<td><strong>79.95%</strong></td>
<td><strong>540269</strong></td>
<td><strong>85.56%</strong></td>
</tr>
</tbody>
</table>
Table 5: Projected Universal Health Care Costs (2009-2010 Rs. in millions)

<table>
<thead>
<tr>
<th>Type of Cost</th>
<th>Figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitation/salaries to FMPs (Rs. 600 per family per year x 236 mi families) 50% of FMP services</td>
<td>141,600</td>
</tr>
<tr>
<td>Overheads 30% of FMP services</td>
<td>84,960</td>
</tr>
<tr>
<td>Fees for specific services 20% of FMP services</td>
<td>56,640</td>
</tr>
<tr>
<td>Total FMP Services</td>
<td>283,200</td>
</tr>
<tr>
<td>Pharmaceutical Services (20% of FMP services)</td>
<td>56,640</td>
</tr>
<tr>
<td>Total FMP Costs</td>
<td>339,840</td>
</tr>
<tr>
<td>Epidemiological Stations (Rs. 3.5 mi per ES x 50,000)</td>
<td>175,000</td>
</tr>
<tr>
<td>Basic Hospitals (50 bedded Rs. 25 mi per hospital x 24,000, including drugs, i.e. Rs. 500,000 per bed)</td>
<td>600,000</td>
</tr>
<tr>
<td>Total Primary Care Cost</td>
<td>1,114,840</td>
</tr>
<tr>
<td>Per capita = Rs. 945; 1.72% of GDP</td>
<td>826,000</td>
</tr>
<tr>
<td>Referral Hospital at Block level 5900 hospitals of 200 beds each @ 700,000 per bed</td>
<td>480,000</td>
</tr>
<tr>
<td>District and Teaching Hospitals, 600 hospitals of 500-1000 beds each including medical education and training of doctors/nurses/paramedics (Rs. 1 million per bed x 4.8 lakh beds)</td>
<td>2,420,840</td>
</tr>
<tr>
<td>Total Health Services Cost</td>
<td>2,564,840</td>
</tr>
<tr>
<td>Medical Research (2%)</td>
<td>48,000</td>
</tr>
<tr>
<td>Audit/Info.Mgt/Social Res. (2%)</td>
<td>48,000</td>
</tr>
<tr>
<td>Administrative costs (2%)</td>
<td>48,000</td>
</tr>
<tr>
<td>TOTAL RECURRING COST</td>
<td>384,726</td>
</tr>
<tr>
<td>Add 5% Contingency</td>
<td>128,242</td>
</tr>
<tr>
<td>ALL HEALTH CARE COSTS</td>
<td>3,077,808</td>
</tr>
<tr>
<td>Per Capita = Rs. 2608.31; 4.73% of GDP</td>
<td>1,325,000</td>
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</tbody>
</table>

Table 6: Projected Sharing of Health Care Costs (2009-2010 Rs. in millions)

<table>
<thead>
<tr>
<th>Costs</th>
<th>Type of Sources</th>
<th>Central Govt.</th>
<th>State/ Muncp.</th>
<th>Social Insurance</th>
<th>Other Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Epidemiological services</td>
<td></td>
<td>80,000</td>
<td>80,000</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>FMP Services (inc. drugs)</td>
<td></td>
<td>75,000</td>
<td>150,000</td>
<td>100,000</td>
<td>14,840</td>
</tr>
<tr>
<td>Basic Hospitals</td>
<td></td>
<td>50,000</td>
<td>350,000</td>
<td>150,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Referral Hospital Block level</td>
<td></td>
<td>100,000</td>
<td>400,000</td>
<td>300,000</td>
<td>26,000</td>
</tr>
<tr>
<td>Secondary/Teaching Hospitals</td>
<td></td>
<td>150,000</td>
<td>150,000</td>
<td>120,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Medical Research</td>
<td></td>
<td>30,000</td>
<td>10,000</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Audit/ Info. Mgt./ Soc.Research</td>
<td></td>
<td>30,000</td>
<td>15,000</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Administrative Costs</td>
<td></td>
<td>20,000</td>
<td>20,000</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Capital Costs</td>
<td></td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>84,726</td>
</tr>
<tr>
<td>Contingency (5%)</td>
<td></td>
<td>50,000</td>
<td>50,000</td>
<td>28,242</td>
<td></td>
</tr>
<tr>
<td>ALL COSTS</td>
<td></td>
<td>685,000</td>
<td>1,325,000</td>
<td>827,242</td>
<td>240,566</td>
</tr>
<tr>
<td>Total Cost</td>
<td></td>
<td>3,077,808 Millions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage shares</td>
<td></td>
<td>22</td>
<td>43</td>
<td>27</td>
<td>8</td>
</tr>
</tbody>
</table>

are on the higher side to make the acceptance of the universal system attractive. Please note that the costs and payments are averages, the actuals will vary a lot depending on numerous factors.

Distribution of Costs

The above costs (Table 5) from the point of view of the public exchequer might seem excessive to commit to the health sector given current level of public health spending. But this is less than five percent of GDP at Rs. 2608 per capita annually, including capital costs. The public exchequer’s share, that is from tax and related revenues, would be about Rs. 2010 billion or less than two-thirds of the cost. This is well within the reach of the current government’s commitment of three percent of GDP for public health services resources of the governments and local governments put together. The remaining would come mostly from employers and employees in the organised sector (social insurance), and other innovative mechanisms of financing. As things progress the share of the state and central governments should stabilise at 50% and the balance half coming from other sources. Raising further resources will not be too difficult. Part of the organized sector today contributes to the ESIS 6.75% of the salary/wage bill. If the entire organized sector contributes even five percent of the employee compensation (two percent by employee and three percent by employer) then that itself will raise close to Rs. 850 billion. Infact the employers’ share could be higher at five percent. Further resources through other mechanisms like Tobin tax, sin taxes and other innovative financing strategies dedicated for the health and other social sectors will add substantially to this, which infact may actually reduce the burden on the state ex-
D ELIVERING  P ROMISES

THE GOLD STANDARD IN PUBLIC HEALTH SPENDING

The public health system overall may be in a bad shape and largely due to inadequate financing. However there is a star amongst states in India which is a shining example in public health spending and that gets reflected in its excellent health outcomes. The state is Mizoram. Mizoram, a small and hilly state, has an excellent primary healthcare system functioning with one PHC per 8000 population and one CHC per 50000 population and since it has virtually no private health sector the demand side pressures are huge and hence the public health system delivers. Each PHC has 2-3 doctors on campus available round the clock with 15–20 beds which are more or less fully occupied and 95% of deliveries happen in public institutions. So Mizoram has indeed realized the Bhore dream. The problem in Mizoram is that there are very few specialists available and hence higher levels of care become problematic — the CHCs are however run by MBBS doctors who have received some additional trainings. Mizoram does not have a medical college but it does have reservations in other state medical colleges. While the state cannot provide tertiary care it has a budget to send people elsewhere to seek such care. And Mizoram does this with 3-4% of its NSDP and has the best health outcomes in India. In some sense Mizoram is like Sri Lanka — a statist model. There are few other states in India which can do a Mizoram because they too do not have a significant private health sector but to do that they have to demonstrate the political will of Mizoram. In the table below health expenditure ratios for Mizoram and a few other states are given and none of them match Mizoram. Infact Maharashtra the most developed state is the worst performer and Kerala, the past star is declining.

Health Expenditure Ratios in Mizoram and other Selected States 1990-2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bihar per capital</td>
<td>37.34</td>
<td>69.41</td>
<td>120.05</td>
<td>114.03</td>
<td>150.76</td>
<td>189.26</td>
</tr>
<tr>
<td>% NSDP</td>
<td>1.3</td>
<td>3.0</td>
<td>1.9</td>
<td>1.43</td>
<td>1.34</td>
<td>1.16</td>
</tr>
<tr>
<td>Kerala per capital</td>
<td>76.54</td>
<td>133.84</td>
<td>215.68</td>
<td>303.16</td>
<td>379.06</td>
<td>494.12</td>
</tr>
<tr>
<td>% NSDP</td>
<td>1.51</td>
<td>1.17</td>
<td>1.08</td>
<td>0.91</td>
<td>0.89</td>
<td>0.88</td>
</tr>
<tr>
<td>Maharashtra per capital</td>
<td>62.99</td>
<td>105.36</td>
<td>168.48</td>
<td>215.03</td>
<td>260.13</td>
<td>291.8</td>
</tr>
<tr>
<td>% NSDP</td>
<td>0.83</td>
<td>0.64</td>
<td>0.75</td>
<td>0.59</td>
<td>0.55</td>
<td>0.54</td>
</tr>
<tr>
<td>Mizoram per capital</td>
<td>221.57</td>
<td>361.27</td>
<td>719.24</td>
<td>823.64</td>
<td>1030.06</td>
<td>2782.26</td>
</tr>
<tr>
<td>% NSDP</td>
<td>4.62</td>
<td>3.32</td>
<td>4.08</td>
<td>3.21</td>
<td>3.42</td>
<td>7.79</td>
</tr>
<tr>
<td>All States* per capital</td>
<td>56.67</td>
<td>94.13</td>
<td>151.87</td>
<td>201.67</td>
<td>257.23</td>
<td>378.25</td>
</tr>
<tr>
<td>% NSDP</td>
<td>0.96</td>
<td>0.81</td>
<td>0.77</td>
<td>0.6</td>
<td>0.59</td>
<td>0.7</td>
</tr>
<tr>
<td>All India per capita</td>
<td>61.5</td>
<td>105.3</td>
<td>165.6</td>
<td>284.07</td>
<td>394.78</td>
<td>542.07</td>
</tr>
<tr>
<td>% NSDP</td>
<td>1.04</td>
<td>0.91</td>
<td>0.81</td>
<td>0.84</td>
<td>0.9</td>
<td>1.01</td>
</tr>
</tbody>
</table>

*excluding Central Government Expenditures BE= Budget Estimate; NSDP= Net State Domestic product; per capita figures in Rupees

End-notes and Additional Thinking

1 Indian Public Finance Statistics 2009-10, Dept of Economic Affairs, GoI, New Delhi 2010, pp 14

2 Primary healthcare (Family Medical Practitioner + Epidemiological Station-PHC) with following features:
- Staff composition for each PHC-FMP unit to include 4 doctors (one coordinating the ES-PHC), 1 PHN, 2 nurse midwives, 8 ANMs (females), 4 MPWs (males), 1 pharmacist, 2 clerk/stat asst., 1 office assistant, 1 lab technician, 1 driver, 1 sweeper and 20 CHWs –. Doctors and nurses may either be salaried or contracted in on a capitation basis as in the NHS of UK. The curative care component should work as a family medical practice with families (200 - 2000 depending on density) being assigned to each such provider.
- Average of 10 beds per PHC
- Average rural unit to cover 20,000 population (range 10-30 thousand depending on density); average urban unit to cover 50,000 population (range 30-70 thousand population depending on density)

(RAVI DUGGAL currently works with the International Budget Partnership as a Program Officer. He is also active in the Peoples Health Movement and the Medico Friend Circle.

The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
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The IER is a quarterly journal featuring contents of academic and professional interest that are of utility to managers, policy makers, politicians, consultants, teachers and students in the areas of Economics and Management. It is a multidisciplinary platform for sharing and disseminating knowledge in the issues of education, health, poverty, unemployment, agriculture, industry, service, FDI, international trade, infrastructure and environment, pertaining to Indian economy. We passionately believe in the credo that we constantly seek to follow: rethink, edify and delineate. This enduring commitment has helped us foster and broaden the parameters of public policy debate and alternatives. Toward that goal, we strive to achieve greater involvement of the intelligent, concerned change agents (reform minded politicians, public servants, academicians, socially responsible firms, civil society organizations and citizens) in questions of policy and the ideation. In order to further augment value and provision a broad perspective to Indian economic problems, your knowledge and expertise in the above mentioned fields would be highly valuable to The IER. We would like the possibility of receiving a write-up from you, on a topic of your expertise and interest as per the under-mentioned guidelines.

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Word Length: Articles should be of 2,500 to 3,000 words including abstract and references.

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References: References to other publications should follow the Harvard style.

Figures, Charts And Diagrams: Use of figures, charts and diagrams should be kept to the minimum and text should indicate where the same will appear. All tables, charts, graphs should be typed on separate sheets. They should be numbered as Table-1, Table 2, etc. The graphs must have the minimum amount of descriptive text and the axes should be labeled with variable written out in full, along the length of axes.

Abstract And Key Words: An abstract within 100 words and three key words should be submitted.

Author’s Bio-data And Photograph: A brief bio-data with full postal and e-mail addresses and a coloured photograph should be sent along with the articles.

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Public Expenditure for Healthcare

High Private Expenditure, low Public Expenditure and even lower allocation in Union Budget in comparison to State Budgets — the case of Healthcare sector in India

India is becoming a preferred destination for medical tourism and super-speciality healthcare but it has a long way to go in providing basic healthcare to the people. The persistence of deficits in the health outcomes of a majority of the country’s population is rooted in the poor state of public provisioning of healthcare. Public expenditure accounts for a small share in total expenditure on healthcare in India, which reflects the low priority accorded to health sector in the government budgets of the country.

International Comparison Illustrates India’s Low Public Expenditure on Healthcare

When compared to the developed and many developing countries, the share of public expenditure in the country’s total expenditure on healthcare appears to be very low for India and, (as per the latest available National Health Accounts of India) it is lower than other Asian countries like China, Malaysia, Sri Lanka, Thailand and Bangladesh. India ranks sixth from the bottom, amongst all countries in the world, in terms of public expenditure on healthcare as a proportion of the Gross Domestic Product (GDP).

High Burden of Healthcare Expenditure on the Households

Analysis of healthcare expenditure from the Union Budget and State Budgets in India, which is presented in the subsequent sections, clearly shows that the country’s overall magnitude of public expenditure on healthcare is very low. As a result of this, India’s healthcare system is among the most privatized healthcare systems across the world. In India, people...
have to depend significantly on the private sector for availing different kinds of healthcare services. Consequently, the burden of spending for healthcare falls directly on households and a major part of healthcare expenditure in India is out-of-pocket expenditure by people, which has strong adverse implications for the poor.

According to a recent paper, the analysis of NSSO’s latest (60th round) national morbidity, healthcare survey data suggests that around 6.2% of total households in the country fell Below Poverty Line as a result of healthcare expenditure in 2004; among which around 1.3% of the households fell Below Poverty Line as a result of expenditure on inpatient care, while 4.9% of the households fell Below Poverty Line as a result of outpatient care.

The latest available National Health Accounts shows that in 2004 (provisional estimates), out of total healthcare expenditure in our country, only 26.7% was public expenditure and 71.6% was private expenditure with external assistance accounting for a very small share of 1.7% (see Figure 1). Out of the total private expenditure on healthcare, out-of-pocket expenditure accounts for a very large chunk as the healthcare expenditure financed by health insurance and expenditure done by other private bodies are very low.

Low Priority for Health Sector in the State Budgets

Table 1 presents the combined expenditure on Medical & Public Health and Family Welfare incurred from the Budgets of all States over the last decade. It is disturbing to note that expenditure on Health and Family Welfare as a proportion of total expenditure from the State Budgets has hovered around just four percent over the last decade.

We may note here that, during 2001-02 to 2004-05, when most States were going through a fiscal crisis, the priority accorded to Health & Family Welfare in the State Budgets had been brought down from 4.4% to 3.4%. What it shows is expenditure on health sector has been a ‘soft target’ when the States have confronted a resource crunch. Although the priority for health sector in the State Budgets has improved since 2005-06, it is still very low; in 2009-10 (BE), expenditure on Health & Family Welfare accounts for just 4.2% of the total expenditure from State Budgets.

Total Public Expenditure on Health Sector has been Stagnant

In 2004, the United Progressive Alliance

Table 1: Expenditure on Health and Family Welfare from State Budgets

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on Health and Family Welfare from Budgets of All States (in Rs. Crore)</td>
<td>16048</td>
<td>16451</td>
<td>17529</td>
<td>18771</td>
<td>22031</td>
<td>25375</td>
<td>31567</td>
<td>38579</td>
<td>43849</td>
</tr>
<tr>
<td>Expenditure on Health and Family Welfare as a proportion of Total Expenditure from Budgets of All States (in %)</td>
<td>4.4</td>
<td>4.0</td>
<td>3.4</td>
<td>3.4</td>
<td>3.9</td>
<td>3.9</td>
<td>3.8</td>
<td>4.1</td>
<td>4.2</td>
</tr>
</tbody>
</table>

RE: Revised Estimates, BE: Budget Estimates
Source: Compiled by CBGA from “State Finances– A Study of Budgets 2009-10”, RBI.
(UPA) Government at the Centre had made a commitment in their National Common Minimum Programme (NCMP) that total public spending on health in the country would be raised to the level of two to three percent of GDP. The Eleventh Five Year Plan (2007-08 to 2011-12) also emphasized the same commitment. However, the total public expenditure on health in India has not shown any significant increase, when compared with the country’s GDP, over the last six years. In 2009-10 (BE), the combined budgetary allocation (i.e. the total allocation from both Union Budget and State Budgets) for health sector stands at a meager 1.06% of GDP, which is far below the promised level of public expenditure on health.

We may note here that a major chunk of India’s public spending on health comes from the State Budgets. In 2003-04, the expenditure on Health & Family Welfare incurred from the State Budgets accounted for almost 71% of the country’s total public expenditure on health; this proportion has shown a marginal decline over the last three years and reached 67% in 2009-10. Thus, although the Union

Table 2: Combined Expenditure of Centre and States on Health and Family Welfare

<table>
<thead>
<tr>
<th></th>
<th>Centre's Expenditure on Health &amp; Family Welfare $ (in Rs. Crore)</th>
<th>States' Expenditure on Health &amp; Family Welfare* (in Rs. Crore)</th>
<th>States' Exp. as % of Total Budgetary Expenditure on Health &amp; Family Welfare</th>
<th>Total Exp. (Centre + States) @ as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>7249</td>
<td>17529</td>
<td>70.7</td>
<td>0.90</td>
</tr>
<tr>
<td>2004-05</td>
<td>8086</td>
<td>18771</td>
<td>69.9</td>
<td>0.85</td>
</tr>
<tr>
<td>2005-06</td>
<td>9649</td>
<td>22031</td>
<td>69.5</td>
<td>0.88</td>
</tr>
<tr>
<td>2006-07</td>
<td>10948</td>
<td>25375</td>
<td>69.9</td>
<td>0.90</td>
</tr>
<tr>
<td>2007-08</td>
<td>14410</td>
<td>28908</td>
<td>66.7</td>
<td>0.88</td>
</tr>
<tr>
<td>2008-09</td>
<td>17661</td>
<td>38579</td>
<td>68.6</td>
<td>1.02</td>
</tr>
<tr>
<td>2009-10 (RE)</td>
<td>21680</td>
<td>43848</td>
<td>66.9</td>
<td>1.06</td>
</tr>
</tbody>
</table>

Notes: $ Centre’s expenditure on Health and Family Welfare refers to the expenditure by the Union Ministry of Health and Family Welfare only. It doesn’t include healthcare related expenditure by other Ministries.

*Figures for States’ Expenditure are Revised Estimates (RE) for 2008-09 and Budget Estimates (BE) for 2009-10; for the previous years, expenditure figures are Actuals.

@ Total Exp. (Centre + States) figures may involve double counting of the grants-in-aid from Centre to States under Health and Family Welfare.

Source: Compiled by CBGA from “Union Budget”, GoI, various years, and “State Finances–A Study of Budgets”, RBI, various years.
Budget allocation for Health & Family Welfare has been increased gradually since 2005-06, it still accounts for only one-third of the total public expenditure on health in the country. The expenditure on Health & Family Welfare from the State Budgets has increased at a much slower pace over the last six years. As a result, the combined expenditure of Centre and States on Health and Family Welfare has increased very slowly from 0.9% of GDP in 2003-04 to 1.06% of GDP in 2009-10.

Inadequate Priority for Health Sector in the Union Budget

Despite the gradual stepping up of Union Budget allocation for Health & Family Welfare since 2005-06, Centre’s expenditure on health still accounts for a very small magnitude as compared to the overall level of public spending on health recognized as necessary for the country. As shown in Table 3, Centre’s expenditure on health stood at a meager 0.26% of GDP in 2003-04, which has increased gradually to reach 0.36% of GDP by 2010-11 (BE). In terms of the priority accorded to health sector in the total spending from Union Budget, we find that in 2003-04 only 1.6% of the total Union Budget was meant for health. The share of health sector in the total spending from Union Budget has increased to 2.3% by 2010-11 (BE), which has happened mainly due to the stepping up of budget outlays for the flagship programme of the Centre in the health sector viz. the National Rural Health Mission (NRHM).

Given the disturbing scenario pertaining to the high extent of privatization of India’s healthcare system and the high burden of healthcare expenditure on the households, the priority for health sector
Allocation for health & family welfare still accounts for only 1/3rd of the total public expenditure in the country in the Union Budget should be significantly higher. Moreover, the increase in Union Budget outlay for health sector over the last few years seems inadequate not only in comparison to the NCMP commitment of total public spending on health at 2-3% of GDP but also in comparison to the level of budget outlays recommended by the Planning Commission for the Eleventh Five Year Plan period (2007-08 to 2011-12).

In the current discourse on planning and government budgeting in the country, there are very few benchmarks for assessing the adequacy of public spending on development programmes / schemes in the social sectors. In this context, the budget outlays recommended by the Planning Commission for the Eleventh Five Year Plan period (2007-08 to 2011-12) could be treated as some such benchmarks, even though the quality parameters underlying these benchmarks would hardly be satisfactory.

With just one more Union Budget left in the Eleventh Five Year Plan period (i.e. the Budget for 2011-12), around 80% of the outlays recommended by the Planning Commission should have been made for the Plan programmes / schemes during 2007-08 to 2010-11. However, for the National Rural Health Mission (NRHM), the total provisioning in the four Union Budgets during 2007-08 to 2010-11 has been only 57.5% of the quantum of funds recommended by the Planning Commission for the Eleventh Plan period, the total budget allocation made by the Centre in the first four years of the Plan period stands at Rs. 51417 crore. Given the need for additional funds across the country to augment rural health infrastructure, fill in vacancies of doctors, Auxiliary Nurse Midwives and para-medics, the Union Budget allocations for NRHM should have been significantly higher.

Two of the new schemes launched in the Eleventh Plan, “District Hospitals” and “Human Resources for Health”, deal with some of the most acute problems confronting the health sector in our country; however, the total plan allocations made in the Union Budgets for 2007-08 to 2010-11 for these new schemes have been as low as 10% of the quantum of funds recommended by the Planning Commission for the Eleventh Plan period.

In the latest Union Budget (i.e. for 2010-11), the Central Government has proposed to include in the Rashtriya Swasthya Bima Yojana (RSBY) all those National Rural Employment Guarantee Scheme (NREGS) beneficiaries who have worked (in the scheme) for at least 15 days in the last fiscal year. While this is a welcome development; there are several concerns pertaining to the implementation of RSBY (relating mainly to the role of private health insurance companies and the private healthcare institutions involved in RSBY), which need to be addressed.

Expectation in the Union Budget 2011-12:
On the basis of the above discussion, it can be argued that many of the Plan schemes in the health sector continue to follow a welfarist approach and provide low-cost, ad hoc interventions. An entitlements-based approach towards public provisioning in the health sector would require a
significant strengthening of the regular and sustained government interventions in this sector, which would inevitably require a much higher magnitude of public expenditure on health than what is still prevailing in India. Therefore, as an immediate action, at least the following issues must be addressed in the Union Budget 2011-12.

- Overall allocation for the health sector should be in increased in the union budget 2011-12, to fulfil the UPA Government’s commitment to increase the health expenditure to 2-3% of GDP.
- Allocation of Union Government on Health has increased to Rs. 25,154 crore in 2010-11 from Rs. 22,614 crore in 2009-10. This is an eleven percent increase compared to previous year. Out of this, external contribution (Externally Aided Projects, EAP) is Rs. 3,986 crore, which is 16% of total Union Government’s Budget on health. In the previous year, EAP contribution was Rs. 3,192.71 crores. This is a 25% increase from previous year. When we exclude the EAP contribution from Union Govt’s budget, the increase is nine percent only.
- Dependence on external resources lays countries open to sanctions and withdrawal of funds, and changes global priorities for funding, impacting availability of resources and thus delivery of programmes. It is inevitable that some of the major programmes of the Union Government that pertain to health sector are affected by the fluctuations in the external flows. There is a need to ensure that such fluctuations do not impact the overall outlays for the health-specific programmes.
- Allocation on NRHM has increased only by 11 percent from Rs. 14,002 crore to Rs. 15,514 crore in 2010-11. Given the requirement of additional funds to augment rural health infrastructure, fill in vacancies of doctors, ANMs, and para medics this seems to be a paltry increase. Given that spending by states under NRHM has also picked up off late, Union Government should increase allocation further. In fact, there should be a quantum jump in the allocation for the NRHM in the Union Budget 2011-12 (as it is the last year of the present plan period), to fulfil the recommendations of the Eleventh Five Year Plan.
- The allocation for National Disease Control Programmes has been reduced from Rs. 1063 crore in 2009-10 (BE) to Rs. 1050 crore in 2010-11 (BE), which is disturbing given that a number of diseases covered under the scheme have witnessed increased prevalence in the recent past. The trend must be reversed in the upcoming union budget.
- Overall allocation on Medical Education and Training has gone down from Rs. 3,255.94 crore in 2009-10 BE to Rs. 2,678.84 crore in 2010-11 BE. Within this, the most pronounced is the fall in allocation on Establishment of AIIMS type Super Specialty Hospitals. It is to be seen whether the government is rolling back from creating more AIIMS like institutions or not. In the context that post graduate medical education needs to be prioritized to fulfil requirement of the specialist doctors, allocation on this should be increased. However, the central government has reduced allocation on two premier institutes like PGIMER Chandigarh, JIPGMER, Puducherry.
- At the same time, the Union Finance Minister’s proposal for Annual Health Survey to prepare District Health Profile for all districts (which was slated to begin from 2010) is a welcome step; but the government would need to allocate adequate funds for this purpose. We may note here that no allocation towards this has been made in Union Budget 2010-11. We would expect that adequate funds will be allocated in the Union Budget 2011-12.

End-notes and Additional Thinking

1. Berman, Peter, Rajeev Ahuja and Laveesh Bhandari (2010), “The Impoverishing Effect of Healthcare Payments in India: New Methodology and Findings”, Economic and Political Weekly, Vol. XLV No. 16 (SAKTI GOLDER has been with CBGA since October 2005. He has done a BA in Economics from Jadavpur University, Kolkata, and MA and M.Phil from the Centre for Economic Studies and Planning at Jawaharlal Nehru University, New Delhi. He is currently working with CBGA as a Research Officer. He has worked on a number of research studies in CBGA, which pertained to the analysis of public spending on children, issues relating to Centre-State fiscal relations, budgeting for dalits and adivasis, and transparency in the Union Budget of India. At present, his research focuses on government financing of healthcare, budgeting for children and budgetary provisions for social security for unorganised workers.

The author gratefully acknowledges for valuable research inputs and suggestions from Subrat Das and Trisha Agarwala. The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
The second time we met Gudiya was after 6 months of our first meeting. This time was different, we were disturbingly shocked to see the adverse changes that had engulfed and forced her into such an ill fate. Those little eyes that once twinkled with the gleam of becoming a doctor, sparkled no more. She now worked as a servant, cleaning dishes and doing chores in a rich man’s house, only to earn a square meal for her struggling family.

We asked Gudiya...
"Where is that aspiring Doctor that We had seen 6 months back?"
She replied "She is dead…"
"Just like my father!"

Gudiya, a 9 year old Dropout from School

This is no fiction. It’s the true story of a 9 year old deprived girl child, Gudiya. According to her friends and teachers, she was extremely good in studies at the time she was in class III.

Unfortunately she can’t go to school anymore, because she has to earn money for her family after the sudden demise of her father, who was the sole bread earner of the family. She had to choose between her books and starvation. The choice was obvious, she decided to help her mother by earning a livelihood to support her family and the education of her younger brother.

This is an appeal to you on behalf of Gudiya and many others just like her, who are the victim of the indigence of their families. They are forced to dropout of school because their family can’t afford the cost of their studies. With your contribution we will make sure, that all children have an equal opportunity to education and that no girl has to drop out of school.

To support the cause, send in your contribution by cheque or DD in favour of “Aurobindo Chaudhuri Memorial Great Indian Dream Foundation”, along with your details or sms to +91 9999999911.

LIKE GUDIYA 40 MILLION CHILDREN ARE STILL BEING EXPLOITED MOSTLY NOT BY CHOICE BUT DUE TO CIRCUMSTANCES

GIVE THEM A CHANCE
BRING A CHANGE.
SUPPORT A CHILD
Budgeting for Adaptation to Climate Change

As reversing the wheel of carbon accumulation through mitigation measures takes considerable period of time, the adaptation to climate change of the most vulnerable sector is critical towards sustainable growth.

It is now unequivocally established through global scientific assessment that climate change is “happening” and it is happening at brisk pace. India’s National Action Plan on Climate Change (NAPCC, 2008) maintains categorically that “Climate Change may alter the distribution and quality of India’s natural resources and adversely affect the livelihood of its people. With an economy closely tied to its natural resources base and climate-sensitive, sectors such as agriculture, water and forestry, it may face a major threat.” With around 72 percent of its population residing in rural areas and dependent on agriculture and allied activities, addressing the challenges is necessary to ensure food security and
viable livelihood options for this vast majority of its population. Equally important is the preservation and management of natural resources, for instance the large scale Himalayan ecosystems which is the cradle of immense biodiversity and variety of wildlife; its glacial and river systems forming critical backbone for the human civilization of the plains of northern India. Protecting and preserving India’s huge coastline and island states is significantly crucial as the large section of its inhabitant extremely vulnerable to phenomenon like rise in sea level, cyclones or storm surges and other extreme weather conditions. Moreover a large section of the population depends for their livelihood on the marine ecosystems around the coasts, therefore conservation of these as well as allowing for sustainable exploitation is a major challenge.

The above concerns about degree of climate vulnerability to large sections of society make a stronger case for government ‘planned adaptation’ intervention. It is because reversing the wheel of carbon accumulation through mitigation measures takes considerable period of time. Therefore, adaptation is a natural choice of staying in and coping with the irreversible changes. Precisely, adaptation refers to coping strategies at national and local levels such as modifications in the behavior and responses of individuals to adapt to changes in their immediate natural and socio-economic systems due to climatic variability. Stern Report (2006) in particular has confirmed the proposition that “the benefits of strong, early action on climate change outweigh the costs”. As per IPCC (2007), adaptation is a well thought-out effective tool to address various impacts resulting from warming, already unavoidable due to bygone emissions and emerging emissions that go unchecked. Hence, emphasis is now more on government driven “planned” adaptation measures, policy framework and strategies, and subsequently its specific as well as larger implementation.

Copenhagen summit of Conference of Parties (CoP 15) following the footsteps of Bali Action Plan (BAP) has called upon the member countries to undertake various measures under broad head of ‘Enhanced Action on Adaptation’ which are followings:

- Planning, prioritizing and implementing adaptation actions in specific projects and programmes in the areas of water resources, health, agriculture and food security, infrastructure and settlement, ecosystems and Oceans and coastal zones.
- Impact, vulnerability and adaptation assessments, including assessments of financial needs as well as economic, social and environmental costs and benefits of adaptation options.
- Strengthening institutional capacities and promoting enabling environments for adaptation planning and implementation, including through the integration of adaptation actions into sectoral and national planning.
- Developing means to incentivize the implementation of adaptation actions and other ways to enable climate-resilient development and reduce the vulnerability.
- Building resilience of socio-economic and ecological systems through economic diversification and sustainable management of natural resources.
- Enhancing disaster risk reduction; early warning systems; risk assessment and management; and the establishment of risk sharing and transfer mechanisms and insurance schemes at local, national, subregional and regional levels to address loss and damage associated with climate change impacts in developing countries that are particularly vulnerable to the adverse effects of climate change.
- Research, development, deployment, transfer, diffusion and access to technologies and and capacity-building for adaptation; Strengthening data, information and knowledge systems, education and public awareness.
- Improving research and systematic observation for climate data collection, archiving, analysis and modelling for realistic climatic-related outputs at national and regional levels.

**Government Policy Response on Adaptation in India**

The government’s adaptation responses to climate change are two fold: responding through the existing developmental paradigm; and making some new programme interventions in the most vulnerable sectors. The 11th Plan, although shying away from making any specific commitments, has emphasised that development itself would be a crucial policy response on adaptation. Therefore, it emphasises that a strong economy with strong growth would be the core strategy for dealing with the challenges of climate change.
change. Meanwhile, the National Action Plan on Climate Change (NAPCC, 2009) has proposed eight very specific missions to deal with the challenge. The stated objectives of the approach is to promote understanding of the issues of climate change, adaptation and mitigation, energy efficiency and natural resource conservation through active government intervention, public-private partnerships and civil society action as suited to individual mission objectives. The NAPCC has clearly identified eight different sectors which are vulnerable to climate change and require adaptation response in terms of government policy and provisioning. These sectors are a) Crop improvement, b) Drought proofing, c) Forestry, d) Water resources, e) Coastal regions, f) Health, g) Risk financing and h) Disaster management.

A predominant feature of the disclosures made in the policy document revolve around the necessity of intervention in the area of management and conservation of natural resources, up-scaling of ecosystem services and the necessity of reforms and innovative management practices at the interface of human beings with natural resources and ecosystems. For example, the Action Plan lays considerable emphasis on reduction in vulnerability in agricultural sector through development of climate-resistant crops, improvement of irrigation, better pest management and strengthening extension services and capacity building. Additionally, it also stresses on wasteland development, development of watershed and conservation of wetlands, forests and biodiversity. The existing areas of interventions listed focus on related issues like health improvement and disease control, protection of coastal areas, disaster mitigation and risk management. The Action Plan, in addition to the sectoral interventions, stresses on expansion of existing knowledge base and its dissemination through increased investments in research and innovation, monitoring and impact assessment.

However, the National Action Plan faces some serious lacuna. Firstly, although, the policy measures prescribed by the government spell out the ongoing and upcoming thrust areas for intervention, it stops short of distinguishing the linkages that ought to be present in each of the sectoral measures. For example, there is a distinct case for hyphenating interventions in sectors like agricultural sustainability, drought proofing and management of water resources. If one looks at agricultural sustainability, it is strongly dependent on the other two sectors. In this case, while shortage of water or long dry spells leading to crop loss is a specific sectoral issue and requires augmentation of irrigation measures; measures in general relating to drought proofing and management of water resources have multi-sectoral implications like betterment of drinking water supply leading to health improvements, prevention of desertification and wetland conservation in the context of forestry and biodiversity management. Although the Action Plan clusters each of the areas under a different mission or sectoral intervention in any given ministry, it does not explore the linkages between these sectors and possibilities of convergence.

Secondly, the Action Plan has largely overlooked three crucial aspects of de-
development viz. food security, educational infrastructure and housing for the poor. It only makes a cursory reference to infrastructure on education and housing aspects in the section on ‘Disaster Management Response to Extreme Climate Events’. The section notes the necessity and cost-effectiveness of incorporating appropriate features in the initial design and construction of infrastructure projects and the necessity of insuring the existing infrastructure created under Sarva Shiksha Abhiyan (SSA), Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Indira Awas Yojana (IAY).

Finally, the Action Plan falls short of detailing the required provisioning for holistic adaptation programmes. It only cursorily mentions the government expenditure on adaptation as 2.6 percent of GDP in 2006-07. The government estimation of expenditure on adaptation in India is composed of a collection of programmes/ schemes across sectors like poverty alleviation, crop improvement, drought proofing and flood control, health improvement and prevention of diseases, risk financing, disaster management and forest conservation. Of these sectors, all except poverty alleviation pertain to interventions in specific vulnerable sectors or areas of concern. NAPCC, in its discussion on the existing measures on adaptation has not elucidated the interventions on poverty alleviation, which it construes as adaptation, or its linkages with the other sectors. Moreover, the discussion on mission mode approach in NAPCC

### Table 1: Union Government Budgetary Expenditure on Adaptation to Climate Change

<table>
<thead>
<tr>
<th>Exp. on Various Adaptation Sectors</th>
<th>2007-08 (RE)</th>
<th>2008-09 (RE)</th>
<th>2009-10 (RE)</th>
<th>2010-11 (BE)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(% of Budgetary Exp.)</td>
<td>(% of GDP*)</td>
<td>(% of Budgetary Exp.)</td>
<td>(% of GDP*)</td>
</tr>
<tr>
<td>A. Expenditure towards Enhancement of Human Capabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty Alleviation, Livelihood &amp; Food Security</td>
<td>9.09</td>
<td>1.36</td>
<td>11.68</td>
<td>1.98</td>
</tr>
<tr>
<td>Health Improvement and the Prevention of Diseases</td>
<td>1.18</td>
<td>0.18</td>
<td>1.06</td>
<td>0.18</td>
</tr>
<tr>
<td>Risk Financing</td>
<td>0.27</td>
<td>0.04</td>
<td>0.20</td>
<td>0.03</td>
</tr>
<tr>
<td>Total</td>
<td>10.54</td>
<td>1.58</td>
<td>12.94</td>
<td>2.19</td>
</tr>
<tr>
<td>B. Expenditures towards Natural Resources Management and Conservation (Ecosystem Services)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Development, Drought Proofing, Irrigation and Flood Control</td>
<td>1.07</td>
<td>0.16</td>
<td>1.12</td>
<td>0.19</td>
</tr>
<tr>
<td>Agriculture &amp; Allied Sectors</td>
<td>0.99</td>
<td>0.15</td>
<td>1.11</td>
<td>0.19</td>
</tr>
<tr>
<td>Forest, Biodiversity, and Wildlife Conservation</td>
<td>0.12</td>
<td>0.02</td>
<td>0.10</td>
<td>0.02</td>
</tr>
<tr>
<td>Water Resources</td>
<td>0.08</td>
<td>0.01</td>
<td>0.10</td>
<td>0.02</td>
</tr>
<tr>
<td>Disaster Management</td>
<td>0.02</td>
<td>0.00</td>
<td>0.02</td>
<td>0.00</td>
</tr>
<tr>
<td>Coastal, Marine and Ocean Management</td>
<td>0.014</td>
<td>0.002</td>
<td>0.014</td>
<td>0.002</td>
</tr>
<tr>
<td>Total</td>
<td>2.29</td>
<td>0.34</td>
<td>2.46</td>
<td>0.42</td>
</tr>
<tr>
<td>Total</td>
<td>12.85</td>
<td>1.93</td>
<td>15.40</td>
<td>2.61</td>
</tr>
</tbody>
</table>

Notes: * GDP in 1999-00 Prices
Source: Compiled from budget documents from various years
focuses on improvement in energy efficiency, ecosystem services and creation of knowledge networks and does not indicate how these measures will complement the existing interventions on improvement in human conditions.

**Analysis of Adaptation Expenditure from the Union Budget**

The CBGA-Oxfam India study (2009) provides alternative figures on adaptation expenditure in India at the union level. Contrary to government claims of 2.6 percent of GDP as of 2006-07, the study instead pegs the expenditure on adaptation in India at around 1.7 percent of GDP at market prices (1999-00 series) on the same financial year (RE). With the new GDP figures available (2004-05 series), the adaptation expenditure figure (as percent) of GDP is 1.64 percent of GDP. However, expenditure on adaptation by the government has increased at a rapid pace from 2006-07 at an average annual growth rate of 27 percent and is reported to be around 2.64 percent of GDP (1999-00 series) and 2.52 percent of GDP (2004-05 series) for the financial year 2010-11 (BE). Likewise, adaptation expenditure as percent of total budgetary expenditure also reflects an increase over the last five years. Its share to total budgetary expenditure has increased from 12.1 percent in 2006-07 (RE) to 15.7 percent in 2010-11 (BE).

The overall costing of adaptation expenditure can be further classified into two sectors: expenditure towards the enhancement of human capabilities, and expenditures towards Natural Resources Management and Conservation. Various plan programmes/schemes relating to poverty alleviation; health improvement and disease control; and risk management through insurance, are oriented towards enhancing human capability to meet the challenges of climate vulnerability, while the second category, includes those programmes and schemes being implemented for the conservation and management of natural resource relating to agriculture and allied services, land development, drought proofing and flood control, water resources, forestry and biodiversity conservation, coastal, and marine resources management, and disaster management. The analysis of budgets 2010-11 (BE) reveals that outlays towards adaptation are heavily in favor of expenditure towards enhancing human capabilities. It constitutes more than 85 percent of total expenditure on adaptation to climate change (i.e. around 2.32 percent of GDP out of the total of 2.64 percent of GDP). Among those sectors which are significant in the adaptation provisioning is the expenditure relating to “poverty alleviation, livelihood and food security.” It constitutes 72 percent in the total adaptation spending. The existing budgetary allocation for improvement in ecosystem services and natural resources management and conservation is a meager 0.32 percent of GDP in 2010-11 (BE).

**Expectations from Union Budgets 2011-12**

1. **Need to Prioritise Natural Resources Management in Budgetary Allocation**

Many nodal administrative agencies which are crucial to the management of natural resources such as Ministry of Environment and Forest (MoEF), Ministry of Water Resources (MoWR), Department of Land Resources (DoLR) have not been given priority in fund allocation in the Union Budget. In the Union Budget 2010-11, the total budget for MoEF is 0.21% of total Union Budget outlays and 0.03% of GDP; MoWR Budget for the same financial year is 0.09% of Union Budget and 0.01% of GDP; and the Departmental Budget for DoLR is 0.24% of Union Budget and 0.03% of GDP in the same financial year. The three important ministries/departments with the core mandate of protecting and conservation of forestry and wildlife, bio-diversity and natural resources management, coastal management, water resources, flooding, and development of land resources in-
Delivering Promises

including drought proofing have not been adequately prioritized in the developmental planning of the country. It is shocking to note that none of the ministries/departments at the union level have implemented any specific plan/programmes pertaining to Climate Change adaptation and mitigation. This reveals the problems of integrating the element of environmental sustainability in the 11th Five Year Plan and hence strengthens the need for comprehensive integration in the 12th Five Year Plan.

The lack of prioritisation and integration in planning also reflects inadequate sectoral allocation for the specific programmes, poor implementation, poor quality of spending, poor capacity of implementing agencies and above all poor outcomes. Crucial schemes like National Afforestation Programme (NAP), Integrated Forest Protection Scheme (currently known as Intensification of Forest Management), Biosphere Reserves Conservation Programme, Mangroves Ecosystems and Wetlands Conservation Programme, Natural Resources Management Programme, and Biodiversity Conservation Programme have not received adequate allocation. Less priority signifies less government intervention in ecological restoration and eco-developmental activities in the country. The Standing Committee Report on Demands for Grants (2010-11) of the MoEF highlighted that the MoEF in its Annual Plan 2010-11 proposed an outlay of Rs 1271.11 crores for new schemes/components in the existing schemes. However, due to resource constraint and priority accorded to completion of ongoing schemes, lower provisions have been made for them (some examples can be found in Table 2).

Besides, it failed to secure people’s participation in planning and regeneration efforts to ensure sustainability and equitable distribution of forest products from the regenerated lands and in promoting partnerships in the management and administration of forests and common property resources. Such insignificant allocation hamper efforts to strengthen species conservation, creating basic infrastructure for management, habitat development, augmenting water resources, compensatory ameliorative measures for habitat restoration, eco-development, village relocation and use of technology for monitoring and evaluation.

2. Integration of Adaptation Planning in Bottom-up Planning Processes:
For effective adaptation, the union budget 2011-12 should make a departure by integrating approaches at the government and institutional level with bottom-up planning to capture variations in regional, national, and local knowledge. Empowerment of communities with regard to social and technological adaptation processes is also necessary. This will add to their knowledge and provide useful information for climate-poverty inter-linkages, vulnerability assessments, and last but not the least, access to good quality information about the impact of climate change at the local level. It will provide the base for early warning and information distribution systems and help anticipate and prevent disasters and any other imminent climatic changes. Here are some instances that provide dearth of local adaptation planning that require integration in the national planning.

<table>
<thead>
<tr>
<th>No.</th>
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<th>Approved Outlay</th>
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<td>2</td>
<td>Capacity Building for Forest Management &amp; Training of Personnel</td>
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<td>3</td>
<td>National Coastal Management Programme</td>
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<td>National Ganga River Basin Authority</td>
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<td>5</td>
<td>Strengthening of Wild Life Crime Control Bureau</td>
<td>36.22</td>
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</tbody>
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Source: Data compiled from 210th Report on Demands for Grants (2010-11) of the Ministry of Environment and Forests (Demand No.30)
Instance 1:
In Assam and Arunachal Pradesh, community build, owned and managed “Raised Earthen Flood Shelter” is an example of decentralised decision making in adaptation financing. It is a good practice and potential for scaling up because it is community owned and community manageable structure within the periphery of traditional practice which provides immediate shelter provisions for flood affected people along with their livestock and other household belongings; provides provision for continuing the emergency services viz. public health, schools, ICDS etc locally. The other potential factor for scaling up the “raised earthen flood shelter” because it provides opportunity for income generation to the flood affected through extending unskilled manual labour (earth works) on constructing the flood shelter. Such practices can be replicated in low lying areas of those states which are prone to unseasonal and heavy rainfalls and floods due to abrupt changes in the climatic conditions

Instance 2:
In Maharashtra, the establishment, management and maintenance of small weather stations/agro-mes stations at the village level has enabled them to analyse locally the data for the ambient temperature, relative humidity, precipitation and wind speed. Though this is being implemented as pilot projects, however such adaptation projects would be extremely useful in the case of anticipating floods, managing water harvesting systems, micro-farming, etc.

3. Need for Constituting National Adaptation Fund:
The constitution of such a fund will provide dedicated finances to address the differential needs arising out of climate change, over and above the existing developmental interventions by the government. Such an initiative will enable the government to earmark and channelise dedicated financial resources to vulnerable sectors and strengthen the linkages that possibly exist between current interventions and the additional one’s being formulated. This can also help establish and finance a knowledge network for adaptation to climate change and provide technological assistance to local communities in vulnerable areas. This fund can be constituted under the auspices of the Planning Commission or Ministry of Finance as they exercise overarching authority across ministries and administrative divisions at the union level.

Concluding Remarks
Budget is a crucial policy document which reflects government’s future policy direction for the country. Climate Change is fast emerging as global problems whose impacts are already felt in the national growth trajectory and more importantly taking tolls upon the nation’s crusade against poverty and providing essentials services to the poor and downtrodden. It is clearly established that climate change hits the poorest the most and hence the government as custodian of public purse need to mainstream certain urgent adaptation policy decisions, sectorally and cross-sectorally, into national, sub-national and grassroots planning processes and allocate adequate provisioning to implement such adaptation programmatic intervention. The union budgets of bygone years have focused to augment economic growth trajectory devoid of climatic consideration.

Time has come to make a rethink of these economic strategies as development without environmental sustainability will hamper, not help, the country’s economy in the long run.

End-notes
1 These eight national missions include a) National Solar Mission, b) National Mission for Enhanced Energy Efficiency, c) National Mission on Sustainable Habitat, d) National Water Mission, e) National Mission for Sustaining the Himalayan Ecosystems, f) National Mission for a Green India, g) National Mission for Sustainable Agriculture, h) National Mission on Strategic Knowledge for Climate Change. Out of all the eight missions, the first three missions pertain to developing alternative energy sources and improving energy efficiency to reduce emission of greenhouse gases into the atmosphere and thereby constitute initiatives for mitigation purposes. The remaining five national missions have specific components of adaptation into their objective or are wholly adaptation-specific.

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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
PLANMAN is perhaps the only global consulting firm that can give your organisation a 360° Business Growth Consulting through it’s 360° capabilities. For us consulting does not only mean mechanical cost reduction through better I.T. applications. We find out what your organisation really needs and give you an intellectual solution that helps you reduce costs as well as helps your business grow and beat the competition.

To beat the competition SMS ‘BUSINESS GROWTH’ to +91-9999999911 or e-mail to growth@planmanconsulting.com now! Our consultants will get back to you in 24 hours and put you into the high growth path!
In a country like India, Gender Responsive Budget is definitely a step towards greater transparency as in one document one gets an estimate of how much of the budget of the government is going towards women.
What makes the work on Gender Responsive Budgeting (GRB) appear in a different genre of scholarly work on gender, is that national budgets, policies and budgetary processes come to the centre stage of feminist scrutiny — an area that has hitherto been on the periphery of the gender agenda. Yet the gap between the pitch of the current spate of work on GRB and the potential that this line of enquiry throws up, is amply large — the silver lining being the possibilities that this gap opens up to propel more work in this area — work which is more artistic than the current spate. GRB, as a tool, is witnessing a huge buy-in from both the government and civil society alike. The last count shows that more than 90 countries across the globe are engaging with GRB. For a tool that was experimented with only in mid 1980s in Australia, 90 countries today, is not insignificant by any standard. Part of the reason for this significant up scaling could be that it puts the limelight on budgets — a powerful instrument of governance and yet an area that traditionally the women’s movement has given only scant attention to (unlike say for instance, other issues like violence, conflict, HIV and AIDS, among others). However one is tempted to argue, that part of the reason for this huge buy-in could be that GRB can be done as an entirely technical exercise, sometimes even a political exercise confined to disaggregating public expenditure by its incidence on men and women and can just stop at that. It will therefore, be a significant opportunity lost, if we don’t seize the opportunity that the huge endorsement of GRB within government quarters offers, and expand as well as ground the GRB discourse in a critical feminist analysis in the substantive equality framework for women.

The experience of GRB has varied in different countries of Asia Pacific — different strategies have been used; different actors have been involved; it has been tried at different levels. If all these were to be put on one canvas, a colorful yet incongruous motley picture would emerge. If there is one message that comes out clearly it is that there is no specific blueprint for GRB. Yet, in terms of what countries in Asia Pacific have done on GRB, two important ‘first steps’ seem to emerge. These are (a) a large number of trainings and capacity building workshops on GRB have been organised; and (b) Gender Budget Statements have been produced. Both these are important ‘first steps’ but by its very definition, a first-step necessarily implies that there will be next steps when one moves beyond the first.
step. Trainings in GRB for policy makers has attracted a large amount of resources made available either by donors or from the government’s own coffers. The results of such trainings could be very sustainable — projects come and go but capacities of national government machineries built on GRB, will remain within the host country. That being said, there is also a need to look critically at GRB trainings. Most countries lack any systematic roadmap of where these trainings or capacity development strategies should lead to. There is also often little clarity on what level of change is desired from capacity development approaches — individual changes (for instance, Finance Ministry Officials being able to understand GRB), collective changes (for instance, Finance Ministry Officials being able to bring out a Gender Budget Statement), or systemic changes (the capacity of the entire budget making process to be more gender responsive).

It is important to understand what level of change one is striving for, as that will have important bearings on our strategy. New work on understanding the different capacity development needs has been done and can be a valuable resource in guiding capacity development work on GRB.

The other first step that many countries have taken in GRB is to produce Gender Budget Statements. While there are inherent limitations in the methodologies and formats being used to produce GRB Statements in most countries, there are advantages as well. In India, for instance, it is definitely a step towards greater transparency as in one document one gets an estimate of how much of the budget of the government is going towards women. Other countries use formats that are more qualitative and less quantitative, Pakistan and Indonesia’s GRB Statements, for instance. (The focus in more qualitative formats is to identify the gender issues in the programme and sub programme and then try to assess the inputs, outputs, achievements and indicators from a gender lens). The other distinct advantage of various line ministries going through the grill of producing GRB Statements is that at least it triggers a consciousness amongst the implementing agency officials of figuring out how responsive each programme/policy has been to gender and should be an important part of the consciousness of any policy maker. However, it is important to keep reemphasizing that Gender Budget Statements is not equal to Gender Responsive Budgeting. GB Statements could be a tool that some countries have chosen to use, but the ultimate objective has to be nothing less than making budgets and policies more gender responsive. Merely interrogating expenditure, or its incidence, does not suffice. The most useful format for GRB Statements, what mix of qualitative or quantitative data it provides, at what level it should be pitched...
We need to ensure that infrastructure in public places acknowledges that women could and should be its users.

While GRB is getting unprecedented attention at the policy making level, as a keen student of gender, it is important to ask ourselves critical questions such as what has this tool meant for the reality of women’s lives? Has it affected women at the grassroots in any significant way? Even as an advocate of GRB, I would say that much of the GRB work has remained an exercise on paper and has not touched the lives of grassroots women in any significant way. However, it holds tremendous potential to do so.

One such work on GRB that is significantly different from the current spate of efforts on GRB is the work being done in the state of Kerala in India and it is important to understand the lessons of this work. The work on GRB in Kerala charters a new course for GRB and addresses some of the long standing gaps in GRB work.

The GRB work in Kerala is not centered on the GB Statement (although the state has initiated the process of preparing GB Statements there is clear understanding that GRB needs to go beyond that). The real achievement of GRB in Kerala is that efforts have been made to reach women at the grassroots. Better still, it is not just that those sectors that have been traditionally perceived as “soft sectors”, such as health and education, are seen as “gender-related”; GRB work in Kerala steers right into the heart of sectors such as infrastructure, roads, ports, etc., that have been most resistant to gender incursions into their domain, let alone incursions of GRB.

The New Kerala Model
What is fundamentally different about the Kerala model is that rather than breaking allocations by whether they fall on men or women, in Kerala the focus is on developing schemes that address women’s specific needs and priorities and realigning them to make them more gender responsive. GRB comes in to ensure that funds are made available for these schemes (or components within existing schemes) to the extent possible.

Infrastructure planning and policy almost always pay scant attention or neglect gender issues. To facilitate women’s participation in the public sphere, it is important to ensure that infrastructure in public places acknowledges that women could and should be its users. For instance, a survey of public offices in the districts of Kerala showed that a number of public buildings do not have separate toilets for women. For women who commute to work, basic facilities like rest rooms and toilets are required at bus stations. It is in this context that a major scheme on Gender Friendly Infrastructure has been formulated, a scheme in which several departments come in, such as, Kerala State Road Transport Corporation (KSRTC), Public Works Department (PWD), Police, Ports, Housing, as also Health, Social Welfare and IT sector. (Infrastructure here is used in a broad sense to include social infrastructure to facilitate women’s participation in the economy as well in addition to physical infrastructure).

Some of the highlights of this scheme include: Firstly, basic amenities such as separate rest rooms, toilets, drinking water facilities being built in all depots and sub depots of Kerala State Road Transport Corporation; and separate toilets for women in public buildings in the district and taluk headquarters which do not have one (under the aegis of the Public Works Department).

Secondly, many rural women have to commute long distances for work in urban areas and acknowledging that women (single women or women heads of women-headed households) and poor women in particular, cannot afford to rent apartments in urban areas, due to prohibitive costs, an innovative
housing scheme for low paid workers, in particular women, has been developed in Poojapura (Trivandrum corporation) and Kakkanad (Cochin corporation). These flats have government regulated low rentals and can be rented by poor women either for family they head or in a group (this is under Kerala State Housing Board in the Housing Department). While at the moment 33 percent of the flats are reserved for women, in the newer sets of flats coming 100 percent will be provided to women, if demanded. In addition working women’s/college students’ hostels are also being set up by PWD and Higher Education Department.

Thirdly, to ensure workers’ safety and welfare in minor ports two buses for conveyance of women workers in Beypore and Vizhinjam (Ports) and night shelter for fisherwomen in two fish landing centres have been arranged for. Also since women have to wait for several hours at the fish drying units, separate waiting rooms have been created for women to ensure their safety and ease the waiting stress (under the aegis of the Harbour Engineering and Fisheries Department).

Fourthly, since much of the increase in women’s labour force participation rate in India is in the informal sector, to facilitate women’s employment to move from sectors characterized by low wages, low growth and drudgery to the new sectors of high growth importance such as IT, infrastructure facilities for skill enhancement of women students have been set up in ten Women’s Colleges (government and aided) across the state (under the IT Department). A particularly successful programme for developing communicative skills, English learning besides basic computer knowledge is REACH, under the Kerala State Women’s Development Corporation. REACH not only provides the physical infrastructure but also the basic skills to women to move from the informal sectors to the formal economy. These courses are available free of charge to BPL women and APL women at nominal charges.

Fifthly, for women survivors of violence, a room has been provided in the General Hospital, Trivandrum, which creates a physical space for counseling for survivors of violence (the Bhoomika counseling centre). The centre provides counseling to those identified by doctors of the hospital as survivors of domestic violence. In addition, the Bhoomika counseling centre has trained medical staff on issues of violence. They also have an outreach programme on violence on radio. Likewise, the Homeopathy Department, Health and Family Welfare Department of Govt. of Kerala, has launched its first gender based programme for women’s health care — Seethalayam — which seeks to address women’s mental, physical and social health. This centre has just been started and it has conducted training programmes for doctors on health needs of women, with a focus on violence. To begin with, it dealt with issues like how to give medical and non-medical support to women affected by violence. The overall objective of the centre is to provide comprehensive health services to women.

Also since an increasingly large number of women are being diagnosed with breast cancer (the most common types of cancer reported by women are breast cancer, cervix cancer and thyroid cancer) at the Regional Cancer Centre, which treats more than 13,000 cases of cancer every year, funds have been made available by the State Planning Board under GRB to augment advanced facilities for early detection of cancer for women such as digital mammogram, augmenting the screening and diagnostic facilities of cancer in women in peripheral centres, equipment for early diagnosis and treatment of cervical cancer such as video colposcope, video hysteroscope, video cytoscope and others.

In some states in India police stations have started programess for women or trainings for their own staff on gender. But what is new and different in Kerala is that Victim Support Cells have been set up that provide women coming to police stations a space (physical space) to discuss issues such as sexual violence which they would feel uncomfortable discussing in public. However, more importantly, and in a move that will have significant impact on women survivors of violence who approach the police, an
amount of Rs. 10,000 per police station \(\text{and within that there is a cap of Rs. 500 per sitting}\), has been earmarked to be used by the police to facilitate the woman's conveyance costs between the police station, hospital, counseling centre, legal support cells, etc. as well as for other incidentals. For poor a woman who walks out of a violent household without any support, availability of this small amount of resources at the police station will be of great help. Kerala's Police Department is the first and probably amongst the very few, if not the only Police Department in the country to have such a plan scheme!

While one could argue that these schemes appear to be addressing practical needs of women, by ensuring mobility, security and safety and by facilitating their integration with and access to the market, they also address strategic gender needs of women.

In addition to Gender Friendly Infrastructure, two other major schemes of importance from a gender lens are the Income Support Scheme for self employed workers in traditional industries like coir, handlooms, khadi and fisheries who fall in the BPL category and the Food Security Scheme. The Income Support Scheme ensures Rs.150 per day for at least 100 days of work; its mode of implementation is flexible and will vary depending on the specificity of the industry (Labour Department together with coir, handloom, khadi and fisheries departments). The other scheme, the Food Security Scheme (as part of the larger Programme on Food Security in the state), also addresses a critical gender gap. In the light of growing evidence of agriculture becoming feminized, to recognize women farmers in their own right, “sangha krishi” (or collective farming) activities of Kudumbashree, is one of the largest women’s empowerment projects in the country with over 37 lakh members. This scheme will be implemented through women’s collectives in agriculture and animal husbandry including, poultry. For the first time agriculture and animal husbandry in which women work in large numbers will have a major scheme that focuses exclusively on women, operating under Departments of Agriculture and Animal Husbandry.

The traditional school-book definition of GRB says that GRB is not about more budgets or resources for women. The Kerala Model of GRB turns this discourse on its head and says that in as much as women’s empowerment needs other things, we also need to ensure greater resources for women. There can be other ways of doing GRB as well that go beyond GRB Statements and disaggregating numbers, such as making guidelines and the operational details of schemes more gender responsive, doing gender audits of programmes and institutions, etc. More effort is needed in these directions. &nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;&nbsp;\text{&FR}

\textbf{Endnotes and Additional Thinking}

1 Unifem’s recent work on Capacity Development for GRB

(YAMINI MISHRA is the Regional Gender Responsive Budgeting Specialist for South, East and South-East Asia. Before joining UNIFEM, Yaminmi was the Executive Director, Centre for Budget and Governance Accountability (CBGA), Delhi, an organisation which do cutting edge work on governance issues using budget analysis as the entry point. Yaminmi’s leadership was critical in building the Centre and its credibility among policy makers. Within the Centre, she provided significant impetus and leadership to the work on Gender Budgeting, which is her area of work and passion. The work done by the Centre and her on GRB has been acclaimed nationally and globally. She has been invited by the government to be on several important committees, including the Feminist Economist Committee set up by the Planning Commission of India. Prior to this, Yaminmi worked with the Asia Pacific Forum on Women, Law and Development in Chiangmai, located in Thailand, a regional women’s rights network. The strong women’s human rights framework that is visible in most of her written work on GRB probably draws from her rich experience of working with women’s rights organisations in Asia-Pacific. In her earlier years, Yaminmi worked with The Ford Foundation on their Human Rights and Social Justice Programme as well as with the Programme on Sexual and Reproductive Rights. She had also worked with Oxfam Great Britain on issues of social justice. Yaminmi has written and published several articles and reports on Gender Budgeting in mainstream newspapers and academic journals.

The author is grateful to Dr. Mridul Eapen, Member State Planning Board Kerala, whose work in Kerala inspired this article. The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
Meeting

The BRICS’ Generational Challenges

BRIC countries face enormous prospects for transitioning into an affluent society, provided they meet their immediate as well as long-standing hurdles.

All across the developing world, generating economic growth has assumed top billing as a priority of policy makers and politicians. The rapidly growing BRIC countries (Brazil, Russia, India and China) are no exception to this drive for rapid advancement. China has been posting record average growth rates of about 10 percent over the past three decades. Following a decade of eight percent plus growth, India has just crossed the income per capita threshold for a middle income country, and could be on its way from a lower middle to upper middle income and high income country status over a generation.

BRIC countries are entering the new decade with strong foundation for further growth. They are expected to play a leading role in the post-crisis global economy (Table 1). The crucial question in all these instances, however, is not only whether high growth will continue this year or in the next but how a country...
might see transformational changes. Related is the issue concerning the kind of investments and institutional changes that promise the most payoffs in such a transition. Meanwhile, generational issues, from great income divides to climate dangers, are proving to be critical. Realizing the country's promise calls both for attending to the challenges of today and delivering on the responsibilities that come with higher incomes.

Such an enduring perspective takes us out of the tyranny of incremental thinking, the comfort zone of economists. It can prompt transitional action and motivate leapfrogging. Brazil's entry into ethanol and bio-fuels, when faced with the same oil price hike as others decades ago, decisively boosted the country's prospects. China's bold opening to global investments lifted the game in the international arena. India's entry into the global supply chain through information technology and off shore services revolutionized corporate strategies.

Equally, the neglect of future challenges is costly. Brazil's neglect in the 1980s of growing debt led to decades of stagnation, while its subsequent enforcement of macroeconomic discipline even or especially under the left leaning Lula administration helped in the recent turnaround. The total neglect of the market cost the Former Soviet Union productivity and well being. The heavy damage to the environment in the industrial countries, and increasingly the BRICs and middle income countries today, lies behind the climate crisis affecting all.

In both BRIC countries and elsewhere, overlooking basic education earlier on cost decades of progress. Primary school enrolment has progressed in the past two decades. But to achieve transformation to high income countries, enrollment in secondary and ter-

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Table 1: BRIC Output Growth Rate

Source: IMF: World Economic Outlook (WEO) – October 2010
tertiary education as well as attainment of the quality of education and learning outcomes are crucial.

BRIC countries face enormous prospects for transitioning into an affluent society — provided it meets its immediate as well as long-standing hurdles. What then are their generational challenges?

The first, overarching area involves governance. As the BRICs move to high income status, at the national, state and provincial levels, good governance is vital. Entrenched bureaucracies and the lack of accountability can hurt service delivery, impairing the quality of life. The public financial management system needs constant upgrading, and information for decision making needs to be timely. Basic governance of day to day life needs to strengthen in numerous ways — as a country is on its way to high income status.

The key would be to inject a results orientation and strengthen institutions. The central government can benefit from a greater degree of decentralization to state local authorities. The central and state governments can commit to smart government, to results, accountability and disclosure. The link to the private sector in forging such transparency and competition could improve governance.

Second, BRIC countries need to engineer greater inclusion in its growth trajectory, helping to reduce disparities. In India, the numbers of people living under $1.25 a day (by the new international poverty estimates) is estimated to have increased from 1981 to 2005 (Chen and Ravallion 2008) despite poverty headcount index fell more than 10 percentage points both in rural and urban
India in the period of 1983–2005. In China, a truly impressive gain in poverty reduction was coupled with considerable increase in inequality as measured in Gini index both in urban and rural China from a very low level (Figure 1). There are rising income disparities within urban areas and persisting urban-rural gap in poverty measures. Brazil, on the other hand, has managed to reduce the poverty headcount and Gini indexes at the same time, albeit from a very high level of inequality, thanks partly to well targeted Conditional Cash Transfer programs.

There exist also disparities across states and provinces. Addressing these disparities will involve generating a higher growth in the poorer states and segments, much as Brazil and Mexico have done more recently, and unlike in China. The poorer states have a longer distance to catch up and by the same token, present greater growth possibilities. But these opportunities will only be realized with higher investments in their preparedness, as recent trends in some of the previously lagging states such as Bihar are showing.

Third, BRIC countries need to turn the environment and climate change into high priorities in the national interest. At the global level, the frequency and intensity of hydro meteorological disasters are worsening (Figure 2). If an improved reporting is a cause for the increased numbers of flooding reported, one would expect that this would affect mainly the less severe disasters. However, the proportion of less severe flooding events reported over the total number of flooding events has remained constant over the 1985-2008 period at about 55% indicating a relatively limited impact from improved reporting.

Climate change is beginning to have an economic impact (Parry, Canziani and others 2007; World Bank 2010). China’s white paper on the climate change discusses significant potential risks including a drop in the yield of the three major crops — wheat, paddy rice and corn, the continued rise in sea level in the coastal zone, reinforcement of the drought trend in northern China and intensification of water scarcity (Information Office of the State Council of the People’s Republic of China 2008). Brazil cannot rule out that the Amazon turns mostly into cerrado. Infrastructure, designed to cope with an increasingly unpredictable climate, will likely become more expensive. India needs to consider the possibility that the monsoons might fail entirely. New crop diseases could emerge — we are seeing the rise of a wheat rust with potentially global impact.

Having a climate-smart world is feasible, and the costs for getting there
will be high, but they will still be manageable if actions are taken now. Otherwise options disappear and costs increase as the world commits itself to high-carbon pathways and largely irreversible warming trajectories. In fact, there is huge scope for emission reductions that can be achieved at low or negative cost, particularly by increasing energy efficiency.

One example is the massive use of efficient light bulbs at the household level in Bangladesh as a faster, cheaper, and less polluting alternative to building fossil fuel power plants. Another is the phase out of burdensome and regressive energy subsidies as implemented in Indonesia. Brazil has made a great progress in slowing the deforestation in the Amazon, which has fallen steadily, declining from an average of 1.48 million ha per year during 2005-2007 to 1.3 million ha in 2008. Similarly, protected areas increased from 79 million ha in 2007 to 107 million in 2009. With increasing urgency to reduce GHGs and conserve biodiversity, forests worldwide have crucial significance; among them the Amazon is perhaps most precious global public goods.

Fourth, new and innovative ways of sustaining growth need to be found. Unleashing the growth potential has been the vital source of growth for BRIC countries. The key now would seem to be to go beyond traditional growth models in relying on capital formation and bring in the dynamic role not only of technology and productivity but also innovation.

Among BRIC countries, China has particularly strengthened the R&D capacity in the past decade. In 1998, China spent 0.65% of its GDP on R&D, the lowest rate among BRIC, but in 2007, the spending for R&D grew to 1.49% of China’s GDP, the highest among BRIC (Figure 3). In the same period, the number of researchers in R&D per million people in China increased almost three times from 390 to 1,071. Russia and Brazil have been maintaining the investment on R&D at about one percent of its GDP. Russia has historically had strong capacity for R&D with about 3,300 researchers in
R&D per million people. While these countries are undoubtedly making progress in this area, they still have a gap to fill compared to Korea which invested 3.5 percent of its GDP for R&D and had 4,627 researchers in R&D per million people in 2007. In India, domestic R&D spending has not exceeded one percent of GDP.

In the 1960s, the application of irrigation, nitrogen fertilizer, pesticides and improved crop varieties realized productivity growth in agriculture and made the Green Revolution possible. With less than 20% increase in the amount of area cultivated, cereal production almost tripled in 40 years from 1960 to 2001 (Figure 4). Since the 1990s, India has benefited hugely from the rapid development in information and communication technologies. As the first (easy) phases reform-driven growth is exploited, new avenues for generating high growth need to be supported in agriculture, industry and services.

The growth prospects of BRIC countries over the next three decades are more favorable than that of the other countries. But increasingly, the realization of the future promise hinges on keeping an eye on the future, not only in the interest of bringing about quality outcomes, but also to ensure that growth can indeed be sustained and the nations can deliver on the possibilities as well as responsibilities that come with a high income status.

References and Additional Thinking


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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
The last two or three years have witnessed a fairly vigorous debate in the education space over the role of the private sector in education, particularly at the elementary level, and its merits and/or otherwise. The somewhat contentious provisions of the then Draft Right to Education Bill, 2005, recently passed as The Right of Children to Free and Compulsory Education Act, 2009, also contributed to this debate. Among other things, the Act stipulates that even unaided schools under private management would be responsible for providing free education to disadvantaged children between the ages of six and fourteen years from their immediate neighborhood, at least to the extent of 25 percent of their strength in the entry class.

Although the Act has yet to be notified, not surprisingly, this provision has management of recognized private schools up in arms. Joining them, albeit for very different reasons, are the proprietors of the unrecognized private schools, who risk monetary fines and jail terms if they continue to operate their schools without seeking recognition as prescribed under the Act. Ironically therefore, an Act that seeks to universalize elementary education for children in India has succeeded in alienating a significant proportion of those who are engaged in contributing to that very objective.

While the numbers offered by different sources vary slightly, it does appear to be more or less agreed that private (recognized) schools in India account for anything between 15-25 percent of available schools. The District Information System for Education (DISE) data for 2007-08, released in November 2009, places the number of schools under private, unaided management at 173,282 out of a total of 1,250,775 schools in India1, or about 14 percent. If one adds the number of aided schools under private management at 173,282 out of a total of 1,250,775 schools in India1, or about 14 percent. If one adds the number of aided schools under private management, we arrive at a figure of nearly 20 percent. According to NCERT’s 7th All-India Educational Survey based on figures for 2002, enrolment in such private schools was 15 percent and 19 percent at the primary and upper primary stages respectively. While NUEPA and NCERT data capture the picture as related to recognized schools, ASER only notes the
fact of private school enrolment without distinguishing between recognized or otherwise, thus providing the slightly higher figure of 21.8 percent children enrolled in private schools in 2009.

While there are minor variations in the private school enrolment indicated by ASER between 2007-2009, it would seem to be fairly clear that roughly one-fifth of elementary schools in India are under private management. If one adds the number of unrecognized private schools, about which little data is available, the percentage of children enrolled in what may be called non-government schools may be conservatively assumed to be between 25-30 percent, if not more. A study in 2006 showed that even in rural areas, almost 28 percent of the population had access to fee-charging private schools. In 2009, ASER data indicates that nearly 44 percent villages have access to private schools, and it would seem safe therefore to assume that this is a sector that is now well established.

At the same time, it may not be correct to presume that private schools are coming up in the absence of government schools; in many cases, they come up in areas with poor government school performance. Various studies have shown that while the private school sector has grown in recent years, leading to a decline in the relative enrolment in government schools, the former do not necessarily compete with the latter in terms of addressing unmet demand. Rather, in establishing themselves in areas where government schools already exist, these private schools meet differentiated or quality demand, attracting children from higher-income groups or from advantaged social groups.

Many years ago, when Milton Friedman first postulated his concept of vouchers in schools, he was convinced that liberalizing the school sector would result in the emergence of a market where none existed, with educational “entrepreneurs” entering the market to take advantage of opportunities offered and in turn, to offer quality school services. While the effectiveness of vouch-
er programmes remains a matter of some debate, it does seem true that the desire of parents to find an alternative to poorly performing government schools may have led in recent years to a growth in the number of available private schools, under both recognized and unrecognized management. In his book, The Beautiful Tree, James Tooley argues quite convincingly that notwithstanding the costs involved, poor parents in urban areas are choosing to vote with their feet and move their children from free government schools into private (and in many cases, unrecognized) schools, thus setting off an increase in the number of such schools.

It is certainly true that there is greater interest in establishing private schools today than there was earlier; no longer viewed as a purely philanthropic activity, the setting up of private schools is now attracting more and more corporate firms who see this as a potential business. In the case of some real estate developers, it is even being seen as another form of forward integration, making the purchase of apartments in their developments more attractive by virtue of guaranteeing a “good” school in the neighborhood; a case in point is the recent announcement by a well-known real estate group, of a chain of 150 CBSE schools to be set up all over India. Similarly, the provisions of The Right of Children to Free and Compulsory Education Act, 2009, requiring the earmarking of 25 percent seats for children from disadvantaged families, are being viewed by many in the private sector as an opportunity to invest in setting up schools, in order to take advantage of the “guaranteed” reimbursement of costs by government.

The government’s proposal to establish 2500 “model” schools in various districts through the Public Private Partnership (PPP) mode has also generated significant interest in the private sector, with several corporate houses exploring options of investing in the sector. Thus, the creation of educational “entrepreneurs” does appear to be taking place to some degree, even though the numbers remain comparatively small.

But what of quality in these private schools? As ASER 2008 showed, when various variables such as family background, income and others are controlled for, the difference in learning levels between government and private schools becomes marginal. Similarly, Education Initiatives (EI), India’s largest private sector testing organization, found that “any lead that private schools show in their learning outcomes over government schools can be completely explained away by... (1) Students’ socio-economic background, (2) students’ initial levels, (3) rote/procedural nature of learning tested. In other words, if you control for factor 1, look for improvements between say, Grade 3 and Grade 7 (to nullify any initial advantage), and the test is not rote/testing procedural knowledge only, private schools (do not) show any advantage over government schools.”

In fairness, it must be said that this is an area that remains open to debate and further research. Tooley for instance, records a difference of 16-17 percentage points in the learning levels of children in
private schools in urban areas, as compared to their counterparts in government schools, but it is not clear whether this is after controlling for factors of the nature mentioned in the preceding paragraph. His findings are clearly in contradiction to findings elsewhere, so there is certainly a case for deeper examination of the underlying causes.

Given that ASER 2009 data reconfirms what has been observed in earlier years in respect of enrolment, finding only about four percent children in the 6-14 year age group still out of school, the question of what happens to the 96 percent children in school acquires great significance. Since this year’s data has been discussed in some detail elsewhere in this report, let us take just one example, that of reading ability; on an overall basis, ASER 2009 finds that nearly 47 percent children in Class 5 are unable to read a Class 2 text. More worryingly, at the national level, the percentage of children in Class 5 unable to read a Class 2 text actually shows an increase between 2008 and 2009, from 44 percent to 47 percent. Regardless of how the difference between government and private schools is explained, the fact remains that these are unacceptably high numbers.

Going forward, two conclusions would appear to be inescapable; first, private management participation in the school sector is only likely to increase over time, and it may be wise to develop policies that address this situation. It may even be time to move away from our traditionally hypocritical approach to private investment, which insists that such investment should be on a not-for-profit basis, thus compelling school operators to find alternatives by which they can make a return on their capital, to a regime that actively encourages private investment within a regulated environment. Second, action is urgently required to improve quality in our classrooms, whether these are in government or private schools. A failure to address this need will lead to increasing numbers of children going through the school system without learning very much, something that no nation can afford.

The most significant thing that ASER has done over the last five years has been to focus attention on the need to improve learning outcomes. Greater public awareness and parental demand, improved infrastructure and more resources have brought us to a point where enrolment is reasonably satisfactory. But we would be failing future generations if we do not take this to the next logical step, improving what children do once they’re in the classroom. It is to that — regardless of whether the child is in a government or private school — that we must now turn our attention.

**Endnotes and Additional Thinking**

1. Mehta, Arun C (2009), _Elementary Education in India, Where Do We Stand?_ State Report Cards 2007-08, New Delhi: National University for Educational Planning and Administration
3. bid.
An academic revolution has taken place in higher education particularly in the past half century marked by a paradigm shift in scope and opportunity. Over the years higher education system has become an enterprise having much of business orientation with all its exposure to fierce competition at different levels of stakeholders. Indian education system considered as one of the largest of its kind in the world also faces/encounters enormous challenges in the new millennium. These challenges are diversified and manifold stretching from contemporary curriculum development, quality assurance and accreditation and ethical value propositions to policy planning and governance. In a technology driven society knowledge rewrites the fate of a nation and so does higher education. One of the major reasons for India’s performance for being not that encouraging was due to suboptimal investment on higher education in the recent past. With unprecedented growth of knowledge typically in the area of information and communication followed by globalization shrinking the world into a global village, competitiveness has become a decisive force of growth. This necessitates massive investment on higher education so that availability of internationally acceptable highly skilled manpower can be ensured. But, this drive for internationalization of higher education is a highly ticklish and delicate move and should not be accomplished at the cost of identity of the nation as rightly quoted “Internationalisation of higher education is one of the ways a country responds to the impact of globalization yet, at the same time respects the individuality of the nation (Knight and deWit, 1997)”. As a part of India’s integration into the world economy the role played by potential foreign participants need a special mention. The impact of potential entrants on Indian higher education system can be felt in most of the functional areas like access, equity and quality. Moreover, in view of the inherent lapses in the regulatory structure of the system, unregulated foreign participation may lead to unfair and exploitative practices; to mention a few high capitation fees, misrepresentation of courses and corruption in admission process which may further accentuate the functional and ideo-
logical differences.
Thus, in order to ensure excellence and reasonable match between demand for and supply of globally acceptable labour, striking balance has to be restored between accessibility to world-class educational system and model exemplifying national values, ethics and standards.

Given this background, an attempt has been made in this paper to identify the recent status of higher education system of India and explore the possibilities of revamping and revitalizing the core functional areas so that growth in this crucial sector becomes qualitative and sustainable.

Access and Equity
Education is one of the most potential weapons to fight against socio-economic maladies like poverty and inequality. Education is equally key to enhance India’s competitiveness in the global economy especially in view of interdependence and integration of Indian economy with world economy posing many challenges like maintaining international quality in higher education and acceptability and sustainability of skilled manpower. This seems to be more important for a country like India which is the second largest system of higher education, next only to USA. Therefore, ensuring access to quality education for all, in particular for the poor and rural population, is key to the economic and social development of India. Looking at the ground reality, it gives a dismal picture of the state of higher education in India. The Gross Enrolment Ratio (GER) in India is 12 percent while that of some developed countries is around 70 percent, Ballal (2009). One of the reasons of such a poor state of affairs may be attributed to concentration of educational institutes in the urban areas while majority of population live in rural areas. This is evident from the fact that in India only as negligible as 20 percent of Higher Education Institutes are located in the rural areas with more than 65 percent of its population while the remaining 80 percent of Institutions are located in urban or Semi-urban areas which constitute only 30 to 35 percent of population. This invariably reflects gross disparities in access to higher education in India. Moreover, over the years Information and Communication Technology (ICT) has been emerging as a potential alternative to ensure greater accessibility to higher edu-
cation beyond geographical and political boundaries with all its advanced tools like teleconferencing, email, audio conferencing, television lessons, radio broadcasts, interactive radio counseling, interactive voice response system, and CD ROMs and it can also facilitate many such academic and administrative activities with e-orientation (Sharma, 2003; Sanyal, 2001; Bhatattacharya and Sharma, 2007). Through broadening the international dimension of educational services to greater and expanding meaningful collaborations with internationally acclaimed global players in higher education, e-learning vis-a-vis ICT can really make higher education easily accessible, affordable and qualitative leading to the upliftment of the socio-economic status of the people. But in India ICT aided e-learning is in an embryonic state due to immature growth of ICT sector as evident from the Table 1.1. Although the growth of e-learning is gradually growing, much remains to do to ensure its visibility particularly in view of its projected global market size of exceeding $52.6 billion by 2010. Moreover, the apprehension of ineffectiveness and dilution in quality of education owing to a shift from conventional mode of imparting higher education to online modules seems to be a major obstacle on the way of accommodating required changes in the system.

In order that the trickle down effects of higher education benefit the economy at large it is essential that inequalities of access to higher education are reduced substantially. The inequalities are diverse and multidimensional. It may vary from quality to gender, from technology to region. Despite its large size, the higher education system in India is far away from the reach of the bulk of the socially economically and culturally underprivileged section of the population and cannot meet the growing demand for higher education, especially from weaker sections of the society including culturally, economically, and educationally backward people. It caters to the requirement of only about 10 percent of youth in the relevant age group (18–24 years), while corresponding figures are more than 50 percent for most developed countries and 20 to 30 percent for developing countries, Chauhan (2008). Further, the absence of equity and inclusiveness in the system is clearly discernible from the fact that the intensity of enrolment in rural areas is low compared to that of urban and too low especially among SC, ST and OBC. On gender front, the access to higher education is also low for female as compared with male, the GER being 15.25% for the former and 11% for the later, Thorat (2006). Many factors can be attributed towards such disparity like financial constraints and lower status of women, lack of proper implementation of ongoing programmes and absence of political will most importantly contribute to inequity and non-inclusiveness in the system. Looking at the ground reality financial provision has been made in the Budget of 2009-10 to improve the situation not only from the point of view of equity and access but also from almost all crucial broad sectors of higher education. The budgetary provision made by the University Grants Commission (UGC) as mentioned in Table 1.2 is intended to address the deficiencies in the higher education system to make it more qualitative, equitable and efficient.

**Quality and Accreditation**

The world economy is changing and so is the higher education. The availability of knowledge, ensuring quality, to the economy at large happens to be a strong determinant of national competitiveness and quality of human resources in a country. The economic progress cannot be sustainable in absence of a higher education system equipped with stringent quality assurance processes. Quality is a critical factor in influencing the educational outcome of the educational institute on one hand and employ-

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**Table 1.1: ICT Accessibility in India**

<table>
<thead>
<tr>
<th>Subscribers</th>
<th>As on March 2006</th>
<th>As on March 2007</th>
<th>As projected for 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet</td>
<td>6.94 million</td>
<td>9.27 million</td>
<td>40 million</td>
</tr>
<tr>
<td>Broadband</td>
<td>1.35 million</td>
<td>2.34 million</td>
<td>20 million</td>
</tr>
</tbody>
</table>

Source: Telecom Regulatory Authority of India, Draft recommendations on Growth of Broadband, 2007
ability of the graduates on the other. In today’s contemporary world the interests of many stakeholders like students, parents, future employers, the State and funding bodies need to be taken care of while developing a strategy leading to quality in higher education, (Barnett 1992, Staropoli, 1991). The academic freedom and flexibility granted to educational institutes like universities make the adoption of quality control exercise a complex and difficult one (Largosen, 2004, Colling and Harvey, 1995). This necessitates developing a stringent monitoring mechanism to maintain and improve the standards of education. In this regard, India has established National Assessment and Accreditation Council (NAAC), similar policies adopted by many developed nations like UK, Canada to promote quality in education. The overall quality assurance framework followed by NAAC has all the basic elements of quality assurance like accreditation, assessment and academic audit. Further, the methods adopted by NAAC like institutional self-study report, on-site visits, face-to-face interaction with faculty and students leave a fair degree of consequential impacts on the educational institutions to adhere to quality norms and standards. However, ensuring quality in a complex, diverse and one of the largest educational systems of the world requires a high degree of accountability both from the institutions and National agencies level. Truly, the complexity in the entire value chain of ensuring quality is more visible in the functional domain of the teacher and the student. Since the participatory role played by students in academic discourse gets seriously affected by not granting due freedom to them and the teachers on the other hand fail to bring the fruits of hard core applied research and consulting to the class room for effecting better and meaningful learning for want of right kind of academic environment coupled with assistance and incentives. Keeping in view of such complexities NAAC has taken initiatives to strengthen stakeholders’ involvement rather than only playing a role of regulatory and assessing body. Thus sustainability in upgrading quality depends much on the stakeholders’ commitment and continuous self appraisal supplemented by the unbiased qualitative review and intime dissemination of requisite information to the receiving end. Moreover, there is no denying the fact that there is also a need to review the ongoing policies and the lapses and shortcomings in meeting the objectives so that recommendations on the basis of national consensus can be worked out for implementation. This can invariably trigger a healthy and constructive competition in the higher education field to march towards excellence.

### Table 1.2: Budgetary Provision, 2009-10

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Sector</th>
<th>Allocation (Rs in Crores)</th>
<th>Percentage to total Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enhancing Aggregate Access</td>
<td>2654.66</td>
<td>77.2</td>
</tr>
<tr>
<td>2</td>
<td>Equity</td>
<td>243.34</td>
<td>7.1</td>
</tr>
<tr>
<td>3</td>
<td>Quality and Excellence</td>
<td>324.50</td>
<td>9.4</td>
</tr>
<tr>
<td>4</td>
<td>Research</td>
<td>72.00</td>
<td>2.1</td>
</tr>
<tr>
<td>5</td>
<td>Relevance and value Based Education</td>
<td>39.00</td>
<td>1.1</td>
</tr>
<tr>
<td>6</td>
<td>ICT Integration</td>
<td>53.95</td>
<td>1.6</td>
</tr>
<tr>
<td>7</td>
<td>Governance and Efficiency Improvement</td>
<td>18.50</td>
<td>0.5</td>
</tr>
<tr>
<td>8</td>
<td>Others (New Schemes and Committed liability of X Plan)</td>
<td>34.00</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Annual Report, 2009-10, Department of Higher Education, Ministry of Human Resource Development

### Public Private Partnerships

As India has entered an era of high economic growth with growth becoming multi-sectoral it faces manpower deficiencies. There is no denying the fact that high level of knowledge and manpower development can promote economic prosperity and international recognition vis-à-vis potential skilled labour force and other tangible socio-economic benefits. Therefore, financing higher education has come to the centre stage of debate and discussions among the policy makers across the globe. The origin of debate much relates to public and private funding of higher education. Even in most of the developing economies the shift from public funding to private funding is visible. Pressure of fierce inter-sectoral competition for public funds and also the requirement of massive funds for developmental projects aggravate financial
Table 1.3: Additional Financial Requirement based on SES Enrolment without Private Education and Mark-up based Recurring Costs (Rs. Crores)

<table>
<thead>
<tr>
<th>11th Plan Period</th>
<th>Total estimated expenditure.</th>
<th>Total trend based State expenditure + Central Non-Plan</th>
<th>GDP Factor Cost</th>
<th>Additional outlay (2) - (3)</th>
<th>(2) as % of (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>18292</td>
<td>13707</td>
<td>2958686</td>
<td>4585</td>
<td>0.62</td>
</tr>
<tr>
<td>2008-09</td>
<td>22194</td>
<td>14588</td>
<td>3195381</td>
<td>7606</td>
<td>0.69</td>
</tr>
<tr>
<td>2009-10</td>
<td>27466</td>
<td>15526</td>
<td>3451012</td>
<td>11941</td>
<td>0.80</td>
</tr>
<tr>
<td>2010-11</td>
<td>30850</td>
<td>16525</td>
<td>3727093</td>
<td>14325</td>
<td>0.83</td>
</tr>
<tr>
<td>2011-12</td>
<td>34090</td>
<td>17588</td>
<td>4025260</td>
<td>16502</td>
<td>0.85</td>
</tr>
<tr>
<td></td>
<td>132155</td>
<td>77933</td>
<td>0</td>
<td>54222</td>
<td></td>
</tr>
</tbody>
</table>


stringencies. It is also not practically possible for Public higher education systems to meet growing demand for higher education, especially in view serious constraints. This has opened up new possibilities like the public private partnerships in higher education system. Total Financial Requirements based on a mark-up over existing recurring costs as presented in Table 1.3 show that the total additional outlay required for achieving the enrolment targets will increase from about Rs 4585 crores to Rs. 16,500 crores over the Plan period without private education. However, the financial requirements based on SES enrolment data with some share attributed to private education show the increase in outlay from Rs 4061 crores to Rs.15,265 crores, Table 1.4.

This clearly suggests that efforts have to be geared up to increase the private spending to achieve the targeted enrolment rate rather than exclusively relying on public spending. And the objective of enhancing the accessibility of qualitative higher education with equity to a seemingly diversified population can be accomplished through effective and meaningful private participation rather than exclusive dependence on public funds. This public private partnership may take any form like public ownership with private participation, private ownership with public subsidy, etc. involving interplay between three stakeholders: the government, the individual learners and the private individuals or enterprises. Apart from many changes being witnessed in the traditional means of running higher education systems, the price elasticity of enrolments which removes the fear factor of the private operators of loosing a sizeable market owing to relatively higher course fee are most important. But, private operators should not be given free hand to operate on the ground that private participation reduces the burden on government budgets, and helps ensure that the costs of higher education are borne by those to whom the benefits accrue. There are obvious concerns associated with the participation of private sector like motive of profiteering, degradation of quality, restriction on academic autonomy and the like.

The concerns are not absolutely/always ill founded since privatization and commercialization are synonymous. For instance, private sector being influenced by the axiom ‘value for money’ may impose unnecessary restrictions leading to loss of academic freedom affecting badly the scope of creativity and innovations. This makes the role of the Govt more pivotal so that privatization with the high order of commercialization does not dilute the basic objective and quality of higher education. As such private higher education systems must have to be subjected to strict administrative and financial regulations. However, by encouraging private participation accessibility of higher
education to a diversified demography in a resource constrained economy can be expanded. The need of the hour is to develop a strong, viable regulatory mechanism to grant permission to private or cross-border institutions to operate for ensuring and expanding qualitative higher education. Therefore, public private partnerships built on the expertise of each other through appropriate allocation of resources, risks and rewards can really play crucial role in nation’s strategic development of higher education.

**Governance**

Higher education systems especially in developing countries are undergoing radical changes in recent times both to ensure quality and social accountability. The challenges are manifold. With the haunt of globalization, achieving the goal of excellence at various spheres like student performance and competitiveness, faculty qualification and promotion of research seems to be the toughest challenge. What is key to achieve excellence in this context is ‘good governance’ which is instrumental in specifying the roles and responsibilities of various stakeholders in such a manner that is consistent with achieving quality higher education. Good governance may not be the sufficient condition for achieving high quality but it is certainly a necessary condition to empower any higher education system to thrive towards excellence and deliver the best. Academic governance relies much on special attributes like initiative, innovation and creativity with substantial academic autonomy. Therefore, it is rightly said that “The governance of higher education needs to develop a fusion of academic mission and executive capacity, rather than substitute one for another” (OECD, 2003). Good governance with the development of appropriate instruments maneuvers the process of achieving the basic objectives of higher education, i.e. social and economic development. However, good governance in higher education depends on variety of factors like academic freedom, state control or supervision, financial stability, accountability and the like. Academic freedom is not absolute, rather it gives liberty to the academicians as well as institutions to put forward innovative ideas adding and replacing the established practice without any adverse impact on their personal careers or fate of the institutions respectively. The academic autonomy when referred to institutions represents freedom from active government control over spending, teaching, and curriculum decisions empowering institutions to take timely decisions for imparting skills and training compatible with ongoing market needs. However, academic autonomy should not imply free reign to cherish commercial interests only crippling the progress thereby. Therefore, academic freedom along with accountability for en-

Table 1.4: Additional Financial Requirement based on SES Enrolment with Private Education and Mark-up based Recurring Costs (Rs. crores)

<table>
<thead>
<tr>
<th>11th Plan Period</th>
<th>Total estimated expenditure</th>
<th>Total trend based State expenditure + Central Non-Plan</th>
<th>GDP Factor Cost</th>
<th>Additional outlay (2) - (3)</th>
<th>(2) as % of (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>2007-08</td>
<td>17768</td>
<td>13707</td>
<td>2958686</td>
<td>4061</td>
<td>0.60</td>
</tr>
<tr>
<td>2008-09</td>
<td>21698</td>
<td>14588</td>
<td>3195381</td>
<td>7110</td>
<td>0.68</td>
</tr>
<tr>
<td>2009-10</td>
<td>27012</td>
<td>15526</td>
<td>3451012</td>
<td>11487</td>
<td>0.78</td>
</tr>
<tr>
<td>2010-11</td>
<td>30460</td>
<td>16525</td>
<td>3727093</td>
<td>13936</td>
<td>0.82</td>
</tr>
<tr>
<td>2011-12</td>
<td>32854</td>
<td>17588</td>
<td>4025260</td>
<td>15265</td>
<td>0.82</td>
</tr>
</tbody>
</table>

hanced educational outcome is important. Institutions while granted recognition to run specialized courses or government funding for infrastructural development and promotion of research and development must be accountable for visible learning and research outcome. Government monitoring and appraisal of performance pertaining to government funding to the institutions in particular seem more pertinent in view of incidence of misuse of funds and low educational outcomes. Accountability is also required in internal administration of the institutes apart from the stipulation from external agencies. Effective governance to a great extent depends on cooperation and compatibility/coherence between various functional domains of administration on one hand and striking an appropriate balance between academic autonomy and government control on the other.

Apart from academic autonomy and accountability, prompt decision making impacts effective governance. In this regard, a technically sound upgraded information system can facilitate decision making in hard core academic and administrative areas like teaching and research, student welfare and finance and day-to-day administration respectively through its easily accessible database and well connected network. There can be still other important components influencing governance in higher education, like financial stability, fruitful training programmes for upgradation of skills, job security, compensation and reward system for faculty and administrative staff and the like which in turn promote quality and excellence. However, managing intellectuals in a knowledge driven society with all diversified strategies evolved to deliver optimal outcome is a highly complex exercise. Good governance in this regard may be a buzz word of progress but not necessarily a universal remedy for critical challenges being faced by institutions operating in diversified socio-economic contexts. But, good governance can facilitate the process of meaningful interplay between different stakeholders safeguarding each other interest to foster quality and sustainability.

Suggestions and Recommendations

With the advent of globalization it has become imperative to reorient our education system to the global realities rather than continuing with the age old inward looking policies. Developed as well as developing countries like USA, UK and China are now reshaping their education policies with massive thrust on sustainable qualitative higher education along with spirit of dynamism and competitiveness. India in this context requires a comprehensive reforms package to harness optimum potential of its human resources crucial in achieving its socio-economic objectives. Below given some of the important suggestions recommendations to revitalize the education system.

a) While access to qualitative professional higher education needs to be further expanded at the same time equity must be ensured by extending financial and academic support to poor and marginalized sections of the society.
b) In order to increase access ICTs aided teaching and learning modules should be developed.
c) Sufficient training programmes for faculty members should be conducted to adopt new skills and expertise to develop learning systems relevant and contemporary to the requirements of the 21st century.
d) Quality assurance is key to sustainability of any system. As such, higher education system involving all its stake-
holders with appropriate regulatory mechanism should create conditions congenial enough for promotion of research, innovative and creative thoughts aiming to ensure high quality.

e) International university networks and partnerships should be developed to promote high quality research and develop internationally competitive curricula and teaching practices and dissemination of innovative ideas.

f) In view of dearth of public funds in a rapidly growing economy, higher education must be based on public-private partnerships model.

g) Academic freedom both for teachers and students should be provided to realize academic excellence.

h) Concerted efforts both at govt. and private level must be made to attract the best of the talents with a sound compensation package along with perks and amenities.

Conclusions

Knowledge is power and therefore has remained one of the most important driving forces of sustaining human existence. For any economy to achieve exponential economic growth, it is essential to gear up skill based activities through a potential, vibrant and dynamic higher education system. Over the years, trade, investment, mobility of people and the economy have grown significantly and so the need of revamping the higher education system replacing the age old and non-relevant practices. Looking at the deficiencies in most of the key areas of higher education system of India like accessibility, quality, financing and governance, a strategic paradigm shift in the policy framework and overall functioning is needed to meet growing expectations and societal needs.

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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
e-Governance Can Enhance the Reach and Delivery of JNNURM?

E-governance can lead to greater transparency in our cities in governance procedures, accountability of government officials, and reduction in corruption.

India’s rapid economic growth in the last two decades has been accompanied by increased levels of urbanisation. Our cities, which are engines of economic growth, are under great strain to meet the growing demands and aspirations of its citizens. India’s urban population has grown from the 290 million reported in the 2001 Census to an estimated 340 million in 2008, and is projected to soar further to 590 million by 2030. This urban expansion will happen at a speed quite unlike anything India has seen before. It took nearly 40 years (between 1971 and 2008) for India’s urban population to rise by 230 million. It could take only half that time to add the next 250 million. By 2030, it is estimated that urban areas will generate 70% of India’s GDP.

As impressive as that is and even as the urban economy is expected to provide 85% of the total tax revenue, the cities today are in dire need for improvement on various fronts. Worsening urban decay and gridlock and a declining quality of life for citizens threaten to jeopardise the anticipated growth rates risking high unemployment and a disenchanted citizenry.

The rising urban population has also given rise to an increase in the urban poor.
As per 2001 estimates, the slum population is estimated to be in excess of 60 million. The ever increasing number of slum dwellers causes tremendous pressure on urban basic services and infrastructure.

It is against this backdrop that the Jawaharlal Nehru Urban Renewal Mission (JNNURM) was launched by the Hon’ble Prime Minister in December 2005. The Mission aims to create economically productive, efficient, equitable and responsive cities in an integrated framework with focus on economic and social infrastructure, to provide basic services to the urban poor, facilitate urban sector reforms and strengthen the Municipal Governments and their functioning. One of these parameters — urban sector reforms — has become a key pre-requisite for funding under JNNURM. It is recognised that urban governance needs drastic improvement. Why is this important? So that urban local bodies and para-statal agencies can become financially sound with enhanced credit rating and an ability to access market capital for undertaking new programmes and expansion of services.

India’s governance of cities is ineffective at best. Large cities are still governed by bureaucrats who can be transferred at short notice. Empowered mayors with long tenure and clear accountability for the city’s performance are essential. With cities growing beyond municipal boundaries, having fully formed metropolitan authorities with clearly defined roles is absolutely essential for the successful management of large cities. These authorities must then rethink how they deliver services to their citizens. Currently, citizens receive services through archaic and bureaucratic departments. Tapping into private sector expertise through public-private partnerships represents an
opportunity to improve services and increase transparency in delivery.

So what are urban sector reforms and how can they be effected? Eight of the basic services typically provided by ULBs are:

- Registration and Issue of Births/Deaths Certificate
- Payment of Property Tax, Utility Bills and Management of Utilities that come under the ULBs
- Citizen Grievances and Suggestions
- Building Plan Approvals
- Procurement and monitoring of projects
- Health Programs
- Accounting System
- Personal Information System

Examples of reforms are:

- Reform of property tax so that it becomes a major source of revenue for ULBs
- Adoption of modern accrual-based double entry system of accounting in ULBs
- Provision of basic services to urban poor including improved housing, water supply, sanitation and other services
- Levy of reasonable user charges by ULBs with the objective that full cost of operation and maintenance or recurring cost is collected within a reasonable time frame
- Introduction of e-governance using IT applications like GIS and MIS for various services

Since local government is a first interface between the citizens and the government, introduction of e-governance in municipalities can assist municipal bodies to improve the service delivery mechanism, achieve better information management and transparency and ensure utmost citizens’ involvement in governance.

So, how can e-governance enable the process of urban sector reforms? It can:

- Focus on clearly identified list of citizen services that would be covered with clearly laid down service levels and outcomes that would be achieved
- Improve efficiency and effectiveness in interaction between local government and its citizens and other stakeholders (i.e., NGOs, community based organisations, residents welfare associations, and the private sector)
- Improve quality of internal local government operations to support and stimulate good governance
- Bring about transparency and accountability in the governance of ULBs
- Enhance the interface between ULBs and citizens; and
- Help improve the delivery of services to citizens

Let us examine the role of e-governance service levels. Table 1 is an illustrative definition of the service levels that could be defined and are achievable through effective deployment of e-governance.

Let us consider the Birth and Death Certificates. Registration of Births and Deaths has been made mandatory under the Registration of Births and Deaths Act, 1969 and is one of the major functions of a Municipality. However, it has been observed that many of the births/deaths go unregistered. Municipal Corporations/Councils should develop a citizen pro mechanism to facilitate and encourage the citizens to register all births/deaths in the accessed area. Similarly, when applying online for a birth certificate, the service level says that it should be generated within 15 minutes. What will it take to achieve this service level? It will require

### Table 1: Service Levels Achievable through e-Governance

<table>
<thead>
<tr>
<th>Service</th>
<th>Service Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birth and Death</td>
<td>Registration – 100% Certificate - Online and through services points (&lt; 15 minutes)</td>
</tr>
<tr>
<td>Property Tax, Water Charge, etc.</td>
<td>&lt; 15 minutes through services points Online thru portal</td>
</tr>
<tr>
<td>Building approvals</td>
<td>Residential &lt; 7 days Commercial &lt; 15 days</td>
</tr>
<tr>
<td>Health Program- License</td>
<td>New &lt; 7 days Renewal &lt; 15 days</td>
</tr>
<tr>
<td>Financial Accounting System</td>
<td>Double accounting, finalization of A/Cs with 3 months</td>
</tr>
<tr>
<td>Projects Management- Approved projects</td>
<td>Online &amp; at service centers, within 1 days of project approval</td>
</tr>
<tr>
<td>e-Procurement</td>
<td>Integration with State e-Procurement module</td>
</tr>
<tr>
<td>Grievances handling</td>
<td>Acknowledge – Immediate Resolution &lt; 7 days</td>
</tr>
<tr>
<td>Personnel Information System</td>
<td>Online, Web based</td>
</tr>
</tbody>
</table>
that a citizen is able to apply online, be able to submit the required documents online and digitally sign the application. This is the only way to meet the service level. Alternately, when applying for the same certificate in person by visiting a facility centre, the certificate should be generated within five working days. This will require for the appropriate workflow processing that can ensure this service level. For all of this to work to the desired service level, digitally signed certificates will need to be incorporated, the individual will need to be given the facility to establish his identity online, documents will need to be able to be submitted online, the software application will need to accommodate the workflow required to meet the requisite service level (for online and in-person submissions). Not to mention the requirement that a pool of hospitals be registered in the integrated system to allow issue of birth and death certificates. A simple definition of a required service level causes a complete re-engineering of processes and technology.

With the adoption of such standards and benchmarks, it is expected that there would be a general consistency in the service levels across the country in terms of uniform measurements and reporting systems which will be of immense help to the management of the e-Governance service. It would also address the issues of catering for the incremental populations, since any increase in breach of service levels would imply that the present infrastructure is not adequate, and would be a signal to take corrective action in a timely manner. It shall also be of great help in shifting the focus from infrastructure to service delivery.

An excellent example of e-Governance transforming service delivery to the urban population is the e-Seva project in Andhra Pradesh. What were the critical factors in enabling it to be a huge success? To begin with, there were clearly defined objectives. It was decided that the goal was to provide one-stop services to the citizens through a chain of integrated citizen service centres. Integrated meant bringing together the services of several government agencies and offering them to the citizen across the same counter. It did not envisage providing cross-agency services in an integrated way. This enhanced the accessibility of information to citizens. The citizen could walk in to any service center and experience the same quality of service.

It was decided that citizens should not be required to travel more than two kilometres to reach the e-Seva centre from their home. The service time was defined to be below three minutes per transaction and the total time spent by a citizen including the time spent on waiting for one’s turn was defined as within 15 minutes. Further, it was determined that all the services be available at the centres for 12 hours a day. This, coupled with the fact that these services are available at multiple locations, significantly reduces the waiting time for the citizens.

A simple definition of a required service level causes a complete re-engineering of processes & technology.
hours a day and selected services, especially those that did not involve an inspection or attestation, be available 24 hours over the internet.

Other objectives addressed the citizen experience. Citizens should not stand in queues. The need for citizens to go to government offices was to be minimised over a period of time. This would lead to the cost of transacting with government being reduced. Finally, the business model needed to be such that the operations were sustainable over a long period of time.

The list of services offered by e-Seva broadly includes:
- Payment of utility bills — electricity, water and sewerage, telephone
- Tax related — filing of sales taxes returns, property tax, filing of IT returns of salaried class
- Collection of examination fee, affiliation fee and recognition fee of Intermediate Board
- Certificates — birth, death
- Permits/Licenses — renewal of trade licenses, registration of new trade licenses, quarterly payments of autos, lifetime tax payment of new vehicles
- Reservation — reservation of bus tickets, requisition for supply of water by tankers
- Other services — sale of passport application forms, filing of passport applications, sale of non-judicial stamps, examination results of various educational agencies, payment of 50 different types of fines and fees charged by police for granting permissions and licenses etc

Citizens of one locality in Hyderabad were the target intended beneficiaries, in the initial pilot stage of the project. The resounding success of the e-Seva project in Hyderabad city led to its expansion in 117 cities and towns throughout the state. The state was divided in to six zones with implementing partners in each zone. Suffice it to say that e-Seva has created a very positive impact among the citizens. It has empowered the citizen in the manner in which he/she interacts with Government and provided a mechanism for service delivery that has transformed the Government to citizen interface. Not to mention the reduction in trips made to Government offices and the corresponding impact on traffic, petrol consumption and the like.

It is worthwhile noting that when e-Seva was initially launched, there were only a limited set of services on offer. With the acceptance of the model, the list of services has been growing steadily. Initially, it had been difficult to convince the government agencies to join the project. Now that the idea of one-stop-shop has caught on, the departments themselves approach e-Seva to add their services.

One principle that e-Seva has maintained throughout — and which has been proved right — is to admit a service in its fold only if it can be offered through a browser, along with all other applications at all the counters. In other words, there should be no counters earmarked for a particular service. This principle observed rigidly has helped e-Seva to preserve its USP of ‘any counter, any service’.

What are the lessons to be learnt? What the project has done is to allow e-governance to break down obsolete structures and the “silo” thinking that has long characterised the way government operates (departments working independently to meet their own goals instead of together to coordinate customer interfaces and services). In the process the Government aimed to reward its customers with better services and itself with lower costs — doing more, and better, for less. Ultimately, the goal should be that urban government bodies completely eliminate face-to-face interaction with its citizen, to the extent possible by increasing the value of customer self-service and the two-way flow of
information so that people will come to enjoy interacting with Government.

In the United Nations Millennium Report it is emphasised that “better governance means greater participation, coupled with accountability”. What are the key issues and challenges in realising good governance?

- **Inadequate accountability and transparency**: A lack of transparency in the functioning of the government agencies can make it easy for the perpetrators to cover their tracks, and consequently very difficult to unearth corruption. For example, numerous websites created by government departments are ineffective because they tend to focus on the single objective of providing electronic access to information. Not enough effort is made to ensure that transparency and accountability are increased.

- **Avenues for corruption**: A high level of discretion is given to government officials and opportunities for arbitrary action in dealing with citizens can lead to corruption. At the same time, due to the complex and cumbersome process, many users find it difficult to deal with government systems that are ambiguous and complex, preferring instead to use agents to get their work done.

- **Paying of bribes**: In the property registration and transport projects, by some estimates, nearly 20 to 50% of all transactions involve the paying of bribes by users.

- **Use of agents**: It is estimated that nearly 50% of users in all states engage agents in order to obtain service.

E-governance can lead to greater transparency in our cities in governance procedures, accountability of government officials, and reduction in corruption. There is an implicit sequence on which e-Governance application must focus to reach the objectives.

- **Access** — increase citizens’ access to information
- **Transparency** — ensure that rules are transparent and applied to all citizens in a uniform and unbiased manner
- **Accountability** — increase accountability by building the ability to monitor, track and hold individual government officials liable for their decisions and actions

As an example, the one-line grievance redressal system implemented by the Greater Mumbai Municipal Corporation (BMC) and an NGO, allows users to file their complaints online, and check on the status of the complaints at any time through a tracking number. Complaints are first sent to a complaints officer (over 400 are being received daily). If the officer fails to resolve the complaint within a stipulated period (a maximum of three days), the complaint automatically escalates to a higher office and finally to an Additional Municipal Commissioner. The NGO and BMC follow up on unresolved issues.

An officer in Karnataka recounted an interesting phenomenon they experienced after the introduction of computerisation in one of their domains. Citizen applications previously were routinely pushed aside to accommodate the processing of “those with connections”. In the other words, the “first in, first out” principle was difficult to implement in practice. Computerisation of this process forced a “first in first out” principle since the computer would only allow the next application to be processed that had been waiting the longest. Thus, what is happening today, is that if a politician’s family member’s application is 12th in the queue and he brings to bear his authority to have it processed immediately, the only way to do it in the computer is to necessarily process the first 11 so as to enable his application to be processed. This clearly benefits the “first 11” and expedites their processing.

Our cities today face many challenges. As the never-ending migration to cities continues, the pressure on urban government bodies to keep pace and provide essential services to citizens is ever-increasing. E-governance is not the panacea to all the challenges, but it can play a big role in empowering the urban citizen to interact with government bodies in a way that has huge benefits to both. That in itself must make it one of the focus areas both within and outside JNNURM. [ER]

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With State turning out to be an implementation tool of the corporatehood and land, forest and water in the open market, life and culture turns corporatized, slowly legitimizing an unquestionable political and social control over people, leading to rise in income inequality.

The Copenhagen drama is over. Nothing came out of it. It was predicted the same by many expert and many intellectuals, activists, professional experts kept a distance from this proscenium. But what is that concerns the ordinary people of this nation? How does market and market values related with people at large and particularly the Dalits, Adivasis and the exploited sections of Indian society? What is the correlation between trade, corporates, market and indigenous communities of this land who still have the noble quality of surviving on a minimum basis?

A Competition of Unequals

In March 2009, European Parliament came up with a resolution on EU-India Free Trade Agreement, where one of the major concerns raised was the inability of India to contain with the problems of Dalits and Adivasis. The reason identified was the lack of administrative and political will of the government, which underlines the existence of an unjust socio-political divide. Apparently this stratifies the inability of Dalits and Adivasis to coup up with the situation under free trade formula particularly in the context of unjust caste system.

In October 2008, the Director General of WTO, Pascal Lamy said, “All of the models suggest that the gains to developing countries will be larger the more they open their markets to trade.”
Citing specific cases, he said, “since opening their economies, Asian giants like China and India have together lifted more than 440 million people out of poverty, an economic success.” While trade has been an engine of aggregate economic growth, Lamy did not consider the unmitigated displacement of traditional sectors and the uneven development that has led to an alarming rise in income inequality both socially and geographically within each country.

Industrialization has today proved to be the worst form of development with unchecked exploitation, particularly with WTO taking the centre stage of all sorts of trade related agreements and transactions. Trade is no longer buying and selling of goods and services but it encompasses issues like Intellectual Property Rights, exploitation of resources, maintenance of supremacy, mobilizing capital, controlling share market etc. Prophets of free trade argue that it maximizes economic output but what has been witnessed is a competition of unequal — diametrically opposite to these claims.

**Corporates Trading Indigenity**

The symbiotic relationship between the forest-based communities and the forest Eco-system is an eternal truth. Their life cannot be segregated into watertight compartments such as social, economic, political, religious, cultural, administrative, intellectual, spiritual, etc. Undoubtedly Adivasis, live in close relationship with the forest and have the greater dependency on it. There are many Dalit artisan and craftsman communities like Kurava in Kerala, Mala communities in Andhra Pradesh, Basod in Madhya Pradesh dependent on the forests. How-ever their customary rights were either curtailed or ignored by every ruler — both Colonial and National.

Undeniably the past policies led to unchecked forest destruction, affecting people’s lifestyle and stuck at the very survival. People’s control over Natural Resources was further reduced with the direct intervention of World Bank in funding forest projects. Biodiversity, biogenetic genealogy, natural knowledge, medicinal herbs etc. are treasure of wealth in forests. With land, forest and water in the open market, life and culture turns corporatized, slowly legitimizing an unquestionable political and social control over people.

State has turned out to be an implementation tool of the corporatehood. For instance private participation in mining sector is widely open in Chhattisgarh. The State’s Mineral Policy has created conducive business environment to attract private investment with simplified procedures. The state is interested to provide resources and manpower such as tailor-made programs in geology, geophysics, geochemistry, mineral beneficiation, mining engineering, land procurement, financial support, recommend for mining operations in forests area, etc. For the people, their dependency on land and forest is not just as a productive asset but as a symbol of their

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**Industrialization has today proved to be the worst form of development with unchecked exploitation**
self-determination, co-existence, community feeling and dignity.

**Displaced & Dislocated**

Mining projects, power plants, dams, defense projects, wildlife management, botanical gardens, bio-experiments, eco-tourism, etc has displaced large population across the country. For example in Chhattisgarh alone almost 17 lakh acres demarcated for wildlife conservation consisting of 250 villages with an approximate population of 50,000 had already been cleared off. Ten major dams acquired 2,57,032.585 acres of land affecting 238 villages and their rehabilitation has not yet been done. Thirty medium projects impacted 123 villages with an acquisition of 32,745.13 acres. These statistics are of 2000, which has gone several multiple by now.

Sarguja, Raigarh and Bilaspur districts are the coal zones. It is estimated that more than 72,000 acres was leased to SECL for coal mining, dislocating hundreds of villages. Nearly 20,000 acres have been occupied for mining steel in Bailadeela and Dalli Rajhara area of Bastar and Durg districts with some of the rare quality of steel. In Raipur, Durg and Bilaspur, there are 10 big cement plants and its auxiliary units. Huge diamond deposits in Devbhog (Raipur) and Bastar are also in the eyes of the MNCs. In all for cement industry 2,990 acres, 14,530 acres for rice mills, 7,665 acres for steel industry, for ferry alloys 940 acres and 285 acres for re-rolling mills were already acquired till 1998. Apart from these 18,652.377 acres of land has been given for mining.

Within the last two years, Chhattisgarh has signed 61 MoUs with Independent Power Producer (IPP) to generate 50,000 MW of electricity with an investment of nearly Rs. 2,50,000 crores. National Thermal Power Corporation signed an agreement last July to set up a 4,000 MW plant needing 30,000 hectares. 16 power projects are to be established in Janjigar-Champa district alone with an approximate estimation of 80,000 acres of land for unit establishment, ancillary divisions and blocks, overburden dumping, fly-ash, staff quarter, road, and other infrastructure.

Between 2005 and 2007 Jindal alone had applied for the prospecting licence (PL) and mining licence (ML) for 6,110.95 sq km and another 1,559.172 hectare (3,852.66 acres) in Dantewada, Bijapur, Narayanpur, Rajnandgoan, Bilaspur, Janjigar-Champa, Raigarh, Jashpur and Surguja districts. This gives a glimpse of displacement or possible dislocation. A survey by a Delhi based NGO revealed that over 1.5 Jharkhandi Adivasi girls/women are domestic workers in Delhi. Over half of them are found to be from displaced group. Non-recognition of land rights implies land alienation which further leads to depeasantisation.

**Seeking Market or Alternatives?**

Under the impact of corporate market the lifestyle, culture and ethos of indigenous people change forcefully. Land is turned into a commodity with concentration on corporate capital. People’s rights are systematically and strategically bypassed, excluded or isolated, while a new army of easily disposable domestic refugees emerge. The historic omission and betrayal continues manifold. It is a conflict between surplus and survival, subsistent economy and market economy, between community life and competition.

Devastating development based on industrialism and wasteful growth is the root cause of this. Developing countries must be allowed the policy flexibility and political space to create national development strategies to increase incomes and secure livelihoods. Policies should create employment and raise productivity, especially in the agricultural and informal sector along with progressive taxation system, land reform and equitable access to education, health, credit and technology.

Hence a reorienting of economies from production for export to production for the local market is required. De-emphasize growth and maximize equity in order to radically reduce environmental disequilibrium. Global policymakers need to understand not only the economics of aggregate growth, but the socio-economic impact of globalized flows on the distribution of income aligning welfare of human beings. One needs to come out of the socio-political inferiority and impotence, which prevents them from identifying the de-humanizing situations, and restricts them to magical explanations and limits the activities to passive acceptance and resignation.

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The views expressed in the article are personal and do not reflect the official policy or position of the organisation.)
Multilevel Fiscal Governance in a Balanced Policy Environment

The most desirable system of allocations should avoid efficiency losses, resulting from either financial dependency, or subnational fiscal operations by striking a balance between fiscal autonomy and reliance on federal transfers of SNGs.
There is an intimate relationship between poverty reduction, sector performance and the institutional arrangements in federal settings. One major dilemma of fiscal federalism literature relates to the mechanism of financing subnational governments i.e. the instruments and systems used to raise revenue, and allocate funds. These mechanisms are the key determinants of the effectiveness of social service delivery in sectors such as health and education. Thus, the development of efficient fiscal federalism is the key to success of social services.

The existing literature is replete with the rhetorical emphasis on the either of the two mechanisms, that is, federal transfers and subnational tax autonomy. In fact, the problem lies in the question being asked. Instead of asking which of the two mechanisms constitutes a better approach to fiscal adjustment, the question should rather be the extent to which revenue powers (i.e., taxes and user charges) should be devolved for accountability and the extent to which federal spending powers should be maintained for efficiency and equity.

However, offering technocratic solutions is not enough. In fact, strategic behaviour of the political officials at the central and subcentral levels can create distortions in the actual operationalization of the constitutional division of powers and responsibilities leading to unintended outcomes.

Thus, in addition to a sound system of intergovernmental financial relations we also need a definite set of institutional mechanisms and procedures that can be used to get around political problems. Since these problems are related to incentives and self-interest, the need is to create a self-enforcing system with in-built incentives for self-imposed fiscal ethics whereby the political officials at the two levels, find it in their best self-interest to avoid indulging in welfare-reducing strategic behaviours, and mutual blame-shifting. In such a set of institutions both levels of government will mutually recognise the other’s comparative fiscal advantages and the limits on their legitimate spheres of action.

This paper suggests two solutions: (a) Combine subnational revenue control with fiscal equalization system in a macroframework (b) Integrate civil society, legal-institutional (arbitral institutional machinery) and political-bargaining approaches so that an independent arbitrating agency can work in cooperation with the civic organizations and collaborative intergovernmental processes to resolve fiscal imbalances.

A Balanced Perspective on Fiscal Federalism

From the national perspective on fiscal federalism, transfers are useful in their own right because they reflect “federal spending priorities” (Boadway 2005, p. 72). Transfers, in this view, enable the central government to replicate the efficiency and equity outcomes of a unitary state (Boadway and Flatters 1982; Boadway and Tremblay 2006). This approach however, can rationalise the intrusive actions by the federal government that lead to coercive fiscal relations characterised by federal pre-emption of state and local authority (see Kincaid 1990). On the other hand, the sub-national perspective on fiscal federalism goes to the other extreme and argues that transfers are weak policy instruments that sever the connection between spending and taxing authority. This perspective advocates a high degree of subnational tax autonomy (Weingast 2006) and insists that SNGs should finance their actions with their own-source tax revenues (Warren 2006, p. 49). It universally assumes that institutional mechanisms designed to grant independent revenue-raising authority to SNGs are always desirable as they will harden the budget constraint for SNGs (Rodden, Eskeland, and Litvack 2003).

The balanced perspective on fiscal federalism implies that when implemented beyond a certain limit, either policy instrument (subnational tax autonomy or transfers) can cause tensions in the federal system and result in reduced efficiency. An excess of both can create incentives for SNGs to behave irresponsibly. Weingast, Shepsle, and Johnsen (1981) and Wildasin (1997) studied the irresponsible behaviour associated with intergovernmental transfers, and Dillinger and Webb (2001) and Prud’homme (1995) highlighted the irresponsible behavioural patterns typically associated with subnational tax autonomy.
SNGs with fiscal autonomy may rationally decide to under-tax and under-provide market-promoting public goods and services (ignore positive externalities). However, SNGs’ excessive reliance on federal transfers can cause negative externalities, including over-borrowing and overspending on rent seeking and corruption.

Thus, the most desirable system of allocations avoids efficiency losses, resulting from either financial dependency, or subnational fiscal operations. In fact, the emerging literature has begun to focus on combining subnational tax autonomy with a fiscal equalization system especially for enhancing welfare in markets of tax competition (e.g. Köthenbürger 2005, Bucovetsky and Smart 2006). Following the ideas contained in this genre of literature, it can be argued that a system with an optimal level of asymmetry that is adequately addressed with transfers, sets the incentives right for tax policy at SNG level.

To illustrate the point, I first present a comparison of the two extreme forms of policy environments in Figure 1 and then illustrate, in Figure 2, the subnational tax policy in a balanced policy environment that combines subnational revenue control with fiscal equalization system.

A sensible assumption about subnational tax policy is that SNGs design their revenue maximizing strategies in context of their specific policy environments. I assume two extreme policy environments. In Type-I policy environment, I assume an extreme form of revenue decentralization. In this situation, SNGs face competitive incentives to increase their revenues by increasing tax rates on immobile tax bases and reducing tax rates on mobile tax bases. The latter policy will increase revenues by repelling mobile tax bases out of the jurisdiction. In Type-II policy environment, I assume an extreme form of revenue centralization. In this situation, SNGs face competitive incentives to attract more equalization grants. To accomplish this goal, they reduce their tax effort on immobile tax bases and impose high tax rates on mobile tax bases. The latter policy will decrease revenues by repelling mobile tax bases out of the jurisdiction.

Figure 2 illustrates a third type of policy environment where subnational revenue control is combined with equalization transfers. In this system, both kinds of perverse incentives will work in opposite direction leading to a classical case of multiple distortions and the second best result. In such a policy environment, if an SNG adopts extreme tax policy type-I, it will be entitled to lower equalization grants that will offset revenue gain due to inflow of the mobile tax base. The simple logic of such a system can be understood as follows: A particular region lowers its tax rate on mobile tax bases. This leads to an inflow of capital into that region, which alleviates the revenue loss on account of reduction in tax rate. However, this attempt by a region to improve its own mobile tax base causes a corresponding tax base loss from neighboring regions. Thus, tax revenues of neighbouring regions deteriorate. The net outcome is an inefficient supply of public goods. The equalization scheme then responds by lower entitlements of the tax-lowering region and higher entitlements of the other regions. Thus, an equalization system reduces pressures of tax competition and allows SNGs to set higher rates. On the other hand, if an SNG adopts extreme tax policy type-II, it will lose mobile tax base that will offset gains from more federal grants.

The Institutional Mechanisms for Optimal Fiscal Federal System

The ‘optimal asymmetry’ is variable and cannot be definitively specified for all countries, or even a particular country at all times. One country at different times and different countries at one time have different levels of ‘optimal asymmetry’. In fact, determining an ‘optimal distribution’ of taxing authority and spending responsibility is not a technical exercise because it cannot be based on some fixed universal standards of optimality. The notion of ‘optimal’ — better than any other distribution — is a relative and context-dependent concept; it is determined to a large extent by the nature of federal polity and the political consensus on policy goals.

So the question of optimality must finally be addressed politically. Yet, it cannot be the product of ad hoc political bargaining either. Some have argued that the level of state taxation in any particular country is simply determined by the political ‘equilibrium’ of that country (Diaz-Cayeros 2006). This approach tends to justify any existing level of federal transfers or subnational taxation, even if they are a product of factors, such as the relative strength of the federal government vis-à-vis SNGs, the relative bargaining power of wealthier SNGs compared to poor SNGs, and the seces-
sion threats by SNGs that aspire to sovereignty. Such equilibrium, based on pure political bargaining, can distort the welfare enhancing and efficiency rationale of a fiscal federal structure.

Furthermore, the power politics can preclude the rationalisation of the fiscal structure and can cause the allocations to lean excessively to either side of the centralization-decentralisation continuum. For example, in Russia, the government typically grants preferential fiscal agreements to the regions with the most serious separatist claims (Treisman 1999). In fact, weakening of the central government can potentially trigger the demand for more revenue authority to SNGs. This happened in Indonesia after the historic fall of the Soeharto Regime (1966–1998) in May 1998 and in Russia after ‘August 1998 meltdown’ (economic paralysis and consequent devaluation of the Rouble on 17th August 1998). This kind of decentralization is unlikely to promote a governance agenda based on transparency and accountability as is largely assumed in the neo-institutionalist perspective (see Hadiz 2004 for a critique of neo-institutionalist perspective). Hadiz (2004) draws on Indonesian experience to illustrate the way in which decentralization processes and institutions can be hijacked by a wide range of interests.

In context of such experiences, some have argued that a given combination of non-federal and federal goods can be said to be optimal if it is identical with the combination that would result if the expenditure and taxing decisions of all jurisdictions were subject to national vote. Voting can be based on the majority rule (Hartle 1971, p. 103) or on the unanimity rule (Hettich and Winer 1986, p. 749-50).

Hettich and Winer advocated the unanimity rule because it prevents special interest groups from influencing fiscal outcomes. However, since unanimous voting is not a realistic possibility, the authors recommended a requirement to make decisions by pluralities larger than 50%. Lazar et al. (2004) and Dahlby (2005) argue that VFI exists when a particular level of government behaves strategically, and therefore the challenge is to create self-enforcing institutions with built incentives to dissuade officials from indulging in a welfare-reducing and mutually de-

![Figure 1: Extreme Policy Environments and Subnational Tax Policies](image1)

![Figure 2: Balanced Policy Environment and Subnational Tax Policies](image2)

**Notes:**
- **n/a:** Not applicable
- **x+1:** Higher than average rate; **x-1:** Lower than average rate.

**Disincentives**
- **Capital flight and Revenue Loss**
- **Loss of Equalization Grants**
- **Optimum own-source revenues and optimum equalization grants**
- **More Revenue**
- **More Grants**
- **More Revenue (due to expansion of tax-base)**
- **More Revenue (due to contraction of tax-base)**

**Right incentives for optimum tax policy**
- **Optimum own-source revenues and optimum equalization grants**
- **More Revenue**
- **More Grants**
- **Capital flight and Revenue Loss**

**Disincentives of an SNG pursuing the extreme tax policy type-I in a balanced policy environment.**
- **Disincentive:** Capital flight and Revenue Loss
- **Disincentive:** Loss of Equalization Grants

**Notes:**
- **#Combine subnational revenue control with fiscal equalization system.**
- **Disincentives of an SNG pursuing the extreme tax policy type-I in a balanced policy environment.**
- **Disincentives of an SNG pursuing the extreme tax policy type-II in a balanced policy environment.**
structive behaviour. Thus, I suggest a simultaneous co-existence of following features to maintain an optimal fiscal federal system:

### i. An Independent, Arbitrating Agency / Commission:
An independent agency or commission of academics and professionals can undertake research on the tax-transfer arrangement required in a particular period. Countries like Australia, India, and South Africa have such independent agencies to work out the distribution of resources between the various levels of government.

Quantifying optimality requires an objective assessment of a federal government’s resources and legitimate expenditure needs in a macro framework. However, there are reasonable differences on such assessments based on values, party politics, regional politics, and views on the nature of the federation and the economic role of government (i.e., the side one takes in intergovernmental disagreements on vertical fiscal relations).

Nevertheless, the independent agency can determine the best set of assignments by gathering feedback on several variables, including the federal government’s expenditure needs and expected revenues, the SNGs’ expenditure requirements and expected revenues, and the extent to which transfers are required to achieve equalisation and national objectives. This feedback can be obtained from election results, public opinion polls, and political debates. Additionally, the financial markets provide a constant flow of information on the relative prices of federal and provincial goods in a particular period. This information is an important indicator of the spending needs of the two levels of government.

In 2008, in response to the changing times, Australia’s Rudd Government decided to revise the country’s fiscal arrangements with the establishment of ‘The Australia’s Future Tax System Review Panel’ under the Chairmanship of Dr. Ken Henry. This panel examined and made recommendations for Australia’s tax and transfer system, including state taxes.

The Review Panel provided the opportunity for the Australian people to participate by holding public meetings in all the major cities. A series of analytical papers were also commissioned to explore significant tax and transfer policy issues. The government received the report on 23rd December 2009 and is currently examining the report.

Thus, an independent agency appointed by a government can provide fiscal guidance. However, in the absence of institutions for intergovernmental interactions, risk-averse political officials will avoid difficult decisions by taking the agency’s recommendations as optional propositions. However, the creation of collaborative political processes and forums for intergovernmental interactions, as argued in the next sub-section, can produce a mutually agreed upon, politically sustainable set of assignments. The existence of vibrant civic society organisations and fiscal rules can further steer intergovernmental interactions towards welfare-enhancing outcomes.

### ii. Collaborative Intergovernmental Institutions for Sustained Interactions:
Public economics scholars have tried to find solutions by incorporating cooperation into the fiscal structure itself. This suggestion, called co-occupancy, is often proposed for systems in which both levels of government jointly tax in the spirit of cooperative federalism. It is generally believed that co-occupancy minimises the effects of tax disharmony, which is associated with tax separation. Boadway and Tremblay (2006) however, explicitly identified the lack of intergovernmental cooperation as a source of VFI, even in cases of joint taxation.

Boadway and Tremblay (2006) analyze two forms of vertical externalities. One,
Rodden and Wibbels (2002) analyze the tendency of SNGs to impose new priorities just to attract more transfers even when national level is under funding old commitments. They demonstrated that a lack of intergovernmental cooperation can lead to a “vertical war of attrition”, in which provincial and central officials attempt to shift fiscal burdens onto the other instead of implementing difficult adjustment measures.

The above discussion indicates that the solution should be sought in the political arena. The institutions for sustained intergovernmental interactions can prove to governments that having sound public finances is in their best self-interests and that both levels of government should work as equal partners for co-production of policies. The Nobel laureate Thomas Schelling (1956) noted that if the parties take a long term perspective and do in fact interact repeatedly, their common interests may be sufficiently strong to sustain cooperation. Such an extended interaction can reduce the incentive to behave opportunistically. Fourçans and Thierry (2001) use game theory to argue that ‘infinite interactions’ prevent welfare-reducing strategic behaviours. Using a game theory model to analyse the European tax situation, Fourçans and Thierry argue, "It is of paramount importance for a country to be able to give a strong signal to the other country that a war of attrition is possible. For that, countries must have sound public finances’ (p. 17).

Arora et al. (2008) have drawn attention to the need for greater ‘interactions in federal systems’. “Interaction involves a greater degree of interdependence between spheres than the simple model of distribution of powers suggests.” (Ibid p.4). In fact, as the dividing line between public and private is getting blurred, the government at all levels — central, regional and local — is increasingly becoming a co-producer of policies together with the private sector. Thus, the changed context has made the creation of ‘interactive networks of stakeholders’ an interesting policy option.

This idea supplements the insights from the literature on ‘policy networks’ — an idea rooted in political science literature on intergovernmental relations (see Rhodes 1998, 99). These ideas can be useful in modeling vertical and horizontal interactions and linkage mechanisms among the stakeholders. Although the prisoner’s dilemma suggests that voluntary co-operation is implausible, ‘policy networks’ can facilitate infinite interactions that reveal interdependencies and induce cooperative behaviour.

A well-guided rationale can even reveal to rich SNGs that it is in their long-term interests to make voluntary transfers to poor SNGs. Myers (1990), for instance, demonstrated that such contributions can benefit rich SNGs’ economies by discouraging inefficient regional migration. Thus, the collaborative intergovernmental processes for sustained interactions can prevent assignments from emerging on the basis of pure political bargaining, which is detrimentally informal and ad hoc.

If SNGs are aware that federal government cannot commit to a level of transfers that is chosen before their spending decisions, they just anticipate that the federal government will finance their expenditures. Thus they set their tax rates too low and spending too high. Second, if federal government is able to commit to a transfer policy, SNGs, concentrate on tax policy. They perceive that increase in tax rate by either level, will reduce the co-occupied tax base. This means part of the cost of rise in subnational tax rate will fall on the federal government. Thus SNGs, acting on behalf of their own residents, fail to take into account the full cost of increase in tax rate, to the nation as a whole. Thus tax rates are set too high.
iii. Civic Society Organisations: Civic society organisations can serve to generate and disseminate information about service delivery, with the specific purpose of verifying political promises and mobilizing voters in the area of public service provision (see Keefer and Khemani 2005). This suggestion rests on the assumption that politicians in all countries respect interests that can bring voters to polls. Thus, disseminating information among voters on the performance of public services and mobilizing them to hold political agents accountable can encourage the political officials to improve public service delivery. Civic society organisations can play such a role. Reinikka and Svensson (2004) showed that in Uganda information dissemination strategy had a substantial impact in preventing leakage of funds away from purposes intended in public budgets.

iv. Legislated Fiscal Rules or Fiscal Councils: Legislated fiscal rules or Fiscal Councils can serve to enforce rule based fiscal discipline. This suggestion is based on international experience, as illustrated by Shah (2006) and (Debrun, Hauner, and Kumar 2009). The experience in Brazil, India, Russia, and South Africa supports the possibility that legislated fiscal rules in the form of budgetary balance controls, debt restrictions, tax or expenditure controls, and referenda for new taxation and spending initiatives can restrain pork-barrel politics and improve fiscal discipline (Shah 2006). In fact, most U.S. states have legislative mechanisms to restrict unrestrained spending like balanced budget laws. Similarly, several Canadian provinces have introduced balanced budget legislation to discourage deficit financing. Furthermore, the success of ‘fiscal councils’ in Belgium, Denmark, and Sweden in ensuring fiscal discipline by providing independent assessments demonstrates that such institutions can reinforce government’s commitments to fiscal responsibility by raising the political costs of deviation (Debrun, Hauner, and Kumar 2009). For a review of the rationale for fiscal rules and the advantages and drawbacks associated with them, see Kennedy and Robbins (2003).

Thus, civil society, legal-institutional and political-bargaining approaches should be combined to eliminate the possibility of distortion of fiscal outcomes by ad hoc political bargaining or by welfare-reducing strategic behaviour by governments. To be consistent with a political economy approach, this solution is based on incentives and self-interest. The bottom-line is that intergovernmental fiscal arrangements must result from equal negotiations between the levels of government and must always aim at achieving maximum public welfare. In order to protect the public welfare, the negotiating process must engage the non-government stake holders, because federal governance is not the exclusive preserve of government; there are other agencies like private sector and civil society organizations that are involved in governing a federal social order.

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In order to enjoy the benefits of urbanization, the pursuit of ‘correcting’ the city size distribution has to be given up and interventions have to be guided by the need to control externalities and not by axioms of ‘good city’

Urban planning as currently practised in India is essentially concerned with planning the use and development of land in cities. Development is merely seen as physical manifestation in most of the town planning legislation. The content of development (or master) plan has been accordingly defined. The 74th Constitutional Amendment stipulated that the state should endow Municipalities with necessary powers to prepare plans for economic development and social justice; and matters covered by the Twelfth Schedule. But such plans prepared if any are still not mainstreamed. The basic notion of ‘development’ viz. economic development, inclusive growth and environmental sustainability are not explicitly incorporated in the planning of urban development. It would therefore be useful to briefly trace the evolution and challenges of urban planning in the context of evolving development strategy.
Perception of Urbanisation

“India lives in villages” an oft-repeated adage attributed to Mahatma Gandhi guided the outlook on cities during early years of post independence period. The Mahatma more particularly wrote “I regard the growth of cities as an evil thing, unfortunate for the mankind and the world, unfortunate for England and certainly unfortunate for India. The British have exploited India through its cities. The latter have exploited the villages. The blood of the villages is the cement with which the edifice of cities is built. I want the blood that is inflating the arteries of cities to run once again in the blood vessels of the villages.” The notion of cities as symbols of exploitation by colonial power or by native capitalists, has received acceptance in wide spectrum of political discourse.

The First Five Year Plan declared, “...even the limited objective of increased production cannot be attained unless the wider objectives of social policy are constantly kept in mind and steadily pursued. On the other hand, equality and social justice will have little content unless the production potential of the community is substantially raised.” However the plan could not visualise the role of cities in raising the ‘production potential’. Consequently it did not include urban development as a sector of economic growth. It had a chapter on housing that contains a section on ‘Town and Country Planning’.
Local authorities have been indifferent to enforcing such bye-laws regarding building and sanitation

The Plan further observed, “Most of the towns in India have grown up haphazardly. They have a large proportion of sub-standard houses and slums containing insanitary mud-huts of flimsy construction poorly ventilated, over-congested and often lacking in essential amenities such as water and light. This is specially so in the large industrial cities. The disgraceful sights presented by the ahatus of Kanpur and the bustees of Calcutta are conspicuous examples of this state of affairs. These conditions have developed because of insufficient control over building activity by the State or municipal authorities. Local authorities have been generally indifferent to enforcing such bye-laws regarding building and sanitation as have existed. Their own resources have been too meagre to permit any development work worth the name.” It is noteworthy that the problem was seen as a result of poor enforcement of rules and not as that of need to expand urban land and services.

Interestingly similar approaches continued until the Sixth Five Year Plan. It is only in the Seventh Five Year Plan the economic importance of cities was noted. The Plan observed, “Urbanisation is a phenomenon which is part and parcel of economic development in general. Certain activities are best performed in, indeed require, agglomeration of people. Planning of urban development should essentially be supportive of the economic development in the country, state or sub-region, be it in agriculture, extractive industry, manufacturing industry or in the tertiary sector. The provision of urban services such as transport, communication, water, sanitation and shelter alone is usually unlikely to stimulate large-scale urban development. It is important to time investments in urban services and shelter to coincide with investments in agriculture and industry, mining and commerce, which provide sources of permanent employment. Therefore, a proper urban development approach must consist of two constituents. The first is the interaction between physical and investment planning and the second is the preparation of regional and sub-regional urban development plans to make the first possible. Industrial location policy must be made to subserve regional and urban planning. During the Seventh Plan a concerted effort should be made to channelise private industrial investment in the vicinity of small and medium towns so that migration of population is diverted to these from going to the metropolises. The same principal should be applied to public
sector investment.” It could be noted that though urbanisation was seen as part of economic development and agglomeration benefits were recognised, migration to large cities was sought to be diverted to small and medium towns.

**Axioms of Urban Planning**

As a result of such ambivalence with respect to process of urbanisation and perception of cities through their visible problems certain axioms have emerged that seem to guide the urban planning in India.

a. Urbanisation is inevitable during the process of economic growth. However growth of large (primate) cities is not desirable. Such growth needs to be limited firstly by promoting small and medium towns and secondly by developing new towns or counter-magnets within the city regions.

b. Despite such efforts, when large cities continue to grow, continued growth of mixed-use, high density inner city areas is not desirable. Such growth needs to be restrained by regulations like maximum density and floor area ratio and new growth should be planned in the form of self-contained neighbourhoods (or sectors).

c. Land and real estate markets obey and follow such plans.

The experience shows that none of these axioms are valid. However neither the new axioms nor a substantive theory of urban planning has emerged so far.

The Task Force on Planning of Urban Development appointed by the Planning Commission for the first time comprehensively examined the urbanisation and urban development. It asserted in 1983 “It must be understood that urbanisation is a phenomenon which is part and parcel of economic development in general. It is a natural consequence of economic changes that take place as a country develops. Certain activities are better performed in, indeed require, agglomeration of people while others do not. The location of activities has therefore to be seen in the spatial context of activities among others existing in a country and both likely and desirable development of network of markets and production centres of goods services and employment. It would be idle to imagine that rapid rise in rural population through demograph-

ic growth can be absorbed in agriculture and still ensure growth of productivity and total production.”

As regards the first axiom alluded to earlier, the Task Force observed “It is generally believed that (i) large cities have grown faster than and at the expense of small and medium towns; (ii) that this is undesirable; and (iii) measures should be taken to retard large city growth and that this can be done by placing greater investment in small and medium towns. First it is not true that large cities have grown much faster, on an average, than small and medium towns. Second the arithmetic of growth and distribution of settlements is such that higher growth of small and medium towns will have little effect in magnitude of growth of large cities.”

Despite these conclusions the Eighth Five Year Plan identified small and medium towns as the thrust area in these words. “Particular emphasis will be placed on the development of small and medium (S&M) towns which serve as an important link between the village and the large cities. In order to realise the objective of more balanced distribution of urban growth both in terms of its distribution over space and also by size class of urban areas, the small and medium towns have to act as important centres of attraction, in terms of economic opportunities, to the potential migrants not only from villages but also from urban areas to large cities.” The notion of helping small and medium towns to absorb migration and restrict size of large cities has survived from the Seventh Five Year Plan onwards. However in its present version of Urban Infrastructure Development Scheme for Small and Medium Towns – UIDSSMT the objective of restraining growth of large cities is not ex-
Explicitly mentioned. 60% to 90% of the infrastructure costs are subsidised by Union Government under this scheme. 

Surprisingly however the Mid term appraisal of the 11th Five Year Plan reaffirms faith in small towns in these words “Healthy growth of smaller towns will ease the pressure on metros which are already bursting at their seams”!

Prior to 1991 the development strategy was based on guiding and controlling investment in productive capacities. The sectoral allocation of private capital was also sought to be centrally guided. This was aptly called license and permit raj. Despite the dissolution of license and permit raj in case of investment in manufacturing industries, the raj continues to rule the domain of spatial planning largely following the third axiom mentioned earlier. Allocation of land to different uses, intensity of development through density and Floor Area Ratio (FAR) are axiomatically determined and justified on “health and safety” considerations. The impact of such plans and regulations on the land and real estate markets is hardly ever considered. Consequently land is sub-optimally used and inadequate consumption of housing space. It is generally believed that slums are spontaneous settlements of poor migrants. But the fact that they are a manifestation of grey housing market that is the result of axiomatic plans and regulations is hardly recognised. Mumbai represents an extreme case where 1.33 and one are normal FSIs irrespective of varying accessibility and land prices. Despite growing incomes 65% of Mumbai’s households live in one-room dwelling units a proportion almost twice as that of Urban India average. Mumbai also has 54% of its population living in slums that is an active parallel housing market.

**Land Policy**

Since urban planning in India is largely concerned with development of land, it would be relevant to briefly consider how perceptions about land and real estate property have evolved. The Indian Constitution initially recognised ‘to acquire, hold and dispose of property’ as a fundamental right. Consequently when land was to be compulsorily acquired ‘compensation’ at market price was payable. Subsequently the term compensation was replaced by the term ‘amount’. This ideology culminated in the enactment of Urban Land (Ceiling and Regulation) Act 1976 that attempted nationalisation of vacant urban land by paying nominal amount. Finally the fundamental right to property was deleted from the Constitution.

The first articulation of the Urban Land Policy was proposed by the Urban Land Policy Committee (Ministry of Health) appointed by the Government of India in 1965. The Committee articulated the following Land Policy Objectives

1. To achieve optimum social use of urban land;
2. To make land available in adequate quantity, at right time and for reasonable prices to both public authorities and individuals;
3. To encourage cooperative community effort and bona fide individual builders in the field of land development, housing and construction;
4. To prevent concentration of land ownership in a few private hands and especially to safeguard the interests of the poor and underprivileged sections of the urban society.

Further the Committee observed that to realise the objectives “there is no escape from large scale public acquisition if the question of guiding urban development or the provision of adequate housing and other facilities is to be tackled effectively and large scale advance acquisition...”
of land would really be in the interests of the society as a whole. It is by far the best and perhaps the only way to put an end to speculation in land and to capture subsequent increases in land values. These surpluses, where realised by the public authorities, should benefit the community in more ways than one."

Not surprising the role models of Indian Town Planners — Delhi Master Plan, Chandigarh, Gandhinagar and Navi Mumbai were all based on public ownership of land. Whether public ownership in fact achieved the land policy objectives in such cases may be a matter of debate. But a verdict on Delhi experience was:

1. It has not been possible for DDA to provide land at affordable prices to low income beneficiaries resulting in large scale jhuggi jhopadi colonies.
2. In the absence of price signals land has been sub optimally used, resulting in over provision to powerful groups, and
3. DDA’s policy to auction very few plots at a time and treating the maximum price quoted in such bidding as the real market price has in fact meant artificially increasing the land price through deliberate scarcity.”

However, securing large-scale public ownership of land implied compulsory acquisition of land. There was considerable discontent amongst the original landowners about the manner in which compensation was determined and paid. The Land Acquisition Act 1894 initially provided the date of declaration of intention to acquire the land as the reference date for determining the market value. However no time limit was laid down for actual payment of compensation. 1984 amendments introduced the time limit of three years and also provided for payment of interest from the date of award to actual payment or possession of land and solatium of 30% of market value. However the market value is to be reckoned at current use value at the exclusion of expected rise in value on account of future use. The proposed changes in the LA Act and the R and R Policy attempt to remove many of these lacunae. But planned urban development is not being recognised as a public purpose for which powers of eminent domain could be used and in practical terms the proposed method of deciding compensation and rehabilitation package would make recourse to compulsory acquisition of land expensive for lands that also require substantial investment in trunk infrastructure. This would compel search for new paradigm in respect of urban land.

The thinkers in the first world too were enamoured by the socialistic notion of community ownership of land. However on practical considerations they sought solutions short of nationalisation of urban land. The two extreme proposals had one thing in common. Both considered right to own land and right to develop (or build upon) as separate rights. Henry George argued that a private landowner may have right to own both land and development rights. But he has no rights on the rents accruing to land, as they are results of monopoly and not efforts of the owner. He therefore argued that the state has legitimate right to recover 100% of such rents by way of taxes. He allowed the owner to retain the returns on his investments in improvements. He was also prophetic about the ills of public ownership of land. In 1879 he stated, “I do not propose to purchase or confiscate private property in land. It is not necessary to confiscate land — only to confiscate rent. Taking rent for public use does not require that the state lease land; that would risk favouritism, collusion, and corruption.” On the other hand a committee under the chairmanship of Justice Uthwatt in UK suggested that the betterment occurring on account of development of land should be balanced with the compensation to be paid for acquiring land for public purposes. To enable recovery of betterment the Committee proposed nationalisation of development rights (by paying compensation). Development required planning permission subject to payment of betterment. Despite three attempts to recover betterment since 1947 it has still not succeeded. A cryptic comment on this reads, “The state expropriates property rights, and then charges those from whom it has taken those rights for granting permission to use them on its terms. A betterment levy is wrong in principle, and like most things that are fundamentally wrong, it will always fail in practice”.

The Indian urban planning thought under the pre 1991 macroeconomic framework was oblivious of property rights and resultant land and real estate market. Hernando de Soto argued the importance of clarity of property rights and labelled poorly recorded property rights as the ‘dead capital’ unable to ensure finance for poor. But his arguments
have evoked little debate in India.

Lack of conceptual clarity about land and property rights have given rise to many expedient policy initiatives. Some of these are discussed below;

a. **FAR as an Instrument of Nationalising Development Rights:** FAR essentially a zoning tool in US cities rationalises the intensity of development that could be permitted considering the existing level of development, accessibility and use. The FAR in US cities varies considerable from less than one to 15. However in most Indian cities such considerations are not used in defining FAR. In many states common FSI values are prescribed across all cities as part of state wide building regulations and do not form part of master plan of individual city (e.g. Punjab, West Bengal). There has been two-fold argument justifying this position. First, varying FSI within a city would be seen as discriminatory between different land owners and second, varying FSI across cities would lead to demand from political quarters to increase rationally defined FSI to an arbitrary level proposed in another city. The general tendency has been to prescribe low uniform FSI (around one). This has meant scarcity of development rights particularly in cities that experience faster economic and population growth and resultant increase in demand for per capita floor space. Instead of adopting measures to reduce scarcity of development rights by rationalising FSI pattern, retaining existing low FSI regime is being implicitly used as an instrument of nationalising development rights beyond prescribed FSI (without paying compensation). Armed with such nationalised development rights the state administrators could allot these rights on conditions of payment or fulfilling other obligations like providing free houses to slum dwellers. (Hyderabad Master Plan proposed a base FSI and permissible increase subject to payment. Maharashtra Government increased FSI in Mumbai subject to payment that would be equally shared between Municipal Corporation and the state government. Extra FSI is similarly allowed in Chennai. Similarly extra FSI is allowed for rehabilitating existing occupants of rent controlled buildings and slums, free of cost). In this context the objectives of raising revenue or helping a class (not necessarily poor) will succeed when base FSI is low and scarcity of development rights is created. Creating scarcity is not a healthy way of managing any market.16

b. **Lack of Clarity about Property Rights:** The legal intervention of rent control creates most muddled property rights. The tenants are protected against increase in rents; they can inherit tenancy rights and can also sale tenancy rights. But landlords can receive only standard rent. This virtually makes tenant an owner with the only exception that tenants’ rights cannot be mortgaged. Since the owner, entitled to a controlled rent, cannot raise money against his assets, the entire property is turned into a dead capital. Within the squatter settlements of large cities there is an active market. Rental market is operative without distorting owner tenant roles through extra-legal means. Owners transact their huts at market prices without tenure rights. But formal tenure in the hut is a dead capital. Security of tenure is seen as security against eviction by the state and not as a way of unlocking the value. The draft Rajiv Awas Yojana proposes to grant tenure to slum dwellers that can be inherited but not alienated, without recognising the fact such restrictions are unenforceable and if enforced breed corruption.

**Current Perspective of Urbanisation and Urban Planning**

Current thinking about urbanisation and urban development can be gauged from the Eleventh Five Year plan. The vision of urban development included in the plan is; “Indian cities will be the locus and engine of economic growth over the next two decades, and the realization of an ambitious goal of 9%~10% growth in GDP depend fundamentally on making Indian cities much more livable, inclusive, bankable, and competitive.” This is significant in explicitly recognising the role of cities in achieving rapid economic growth. The three out of four goals put forward for Indian cities do find reflection in the Plans proposals. However the Plan does not clarify how cities will become competitive. Though not explicitly mentioned, the Plan

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**The draft Rajiv Awas Yojana proposes to grant tenure to slum dwellers that can be inherited but not alienated**

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still retains the old preoccupation with concern for state wise variation in urbanisation and increasing share of larger cities in urban population. This has also reflected in a proposal that intends to develop other settlements located in the vicinity of the mother city as satellite/counter magnets to reduce and redistribute the population and population influx. To cope with the above problem, the government has proposed a new scheme for development of satellite towns/counter magnet cities. This will help in the development of metropolitan regions.

It should be noted in this context that the World Development Report - 2009’s main message is that economic growth will be unbalanced. To try to spread out economic activity is to discourage it. But development can still be inclusive, in that even people who start their lives far away from economic opportunity can benefit from the growing concentration of wealth in a few places. The way to get both the benefits of uneven growth and inclusive development is through economic integration. The notion that economies of scale and agglomeration give rise to modern cities and such cities then foster innovation and further economic growth is well established. Jeb Brugmann while deciphering the hidden logic of global urban growth has observed, “Density increases the sheer efficiency by which we can pursue an economic opportunity. The scale of cities increases the range of opportunities and level of ambition that can be viably pursued in them and thereby the scale of the impacts that urban pursuits can have on the world. The scale and density of interactions among people with different interests, expertise and objectives then combine to create the third basic economy of cities — economy of association. The modern urban infrastructure is viable due to supply economies created by the scale and density of cities and demand efficiencies created by association. The result is economies of extension — an ability to link unique economic advantages of one city with those of other cities to create whole new strategies for advantage in the world.”

At the local level the 11th Five Year Plan proposes facilitator role for both the central and state governments and as corollary increased private participation. It also proposes dismantling public sector monopoly over urban infrastructure and creating conducive atmosphere for the private sector to invest. Such a conducive atmosphere requires creating and regulating markets in urban infrastructure. However the Plan does not clearly outline strategy in this regard. Similarly the Plan recognises slums as a result of poverty in urban areas. But that is only partly true. According to Census 2001, 54% of Mumbai’s population lived in slums — almost twice as the proportion of people below poverty line. This is obviously a result of housing market. At the current housing prices it is estimated that only top 20% of income scale can afford formal houses in Mumbai. Under such circumstances the subsidies extended to the poor (20th percentile) whether by way of land, construction or money are bound to flow to the upper income. It is necessary to pay equal attention to both demand and supply side of the housing market. The demand relates to income, space – transport trade-offs, and availability of housing finance. The supply relates availability of land and infrastructure, availability of building materials and construction finance. Each of these elements could be influenced by public policy like targeted subsidies, establishing and enforcing property rights that improve access to housing finance, removing regulatory constraints on development rights and expansion of city and extending infrastructure. This could be achieved through enabling framework without state providing housing.

The New Paradigm
The Statement of Industrial Policy, 1991 that heralded India’s economic liberalisation defined as the development strategy,
stated “Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialisation to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.” The Statement further clarified that “Major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of any such package of measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgement.” The statement also asserted, “As a whole the Indian economy will benefit by becoming more competitive, more efficient and modern and will take its rightful place in the world of industrial progress.”

Though the statement is limited to manufacturing industries could be extended to urbanisation in terms of vision, objectives and policy instruments. The role of urban planning could be accordingly developed. Urban planning though essentially a local action will require a national or state framework. The basic tenets of such an approach are outlined below.

**Macro Framework**

1. The current status of urbanisation is captured in the numbers 3:30:60 implying that three percent of the area supports 30% of population in urban areas and generates over 60% of GDP. Expansion of urban area in terms of population and area will be consistent with the objective of rapid and inclusive growth. No public policy instruments are warranted to curb or restrain the growth of cities.

2. The economies of scale and density will continue benefit the overall economic growth. Policies to restrict growth of metropolitan cities will not be pursued. This may lead to uniform level of urbanisation and interstate variations will persist. However, instead of aiming state wise parity at lower economic and urbanisation levels, the ‘distance’ between large and dense cities and lagging regions will be overcomed by improved transport infrastructure. Highways, railways, water and airways will facilitate movement of men and materials. Telecommunication and IT will facilitate exchange of information and money.

3. This should not imply neglect of smaller towns. Basic infrastructure like safe drinking water, sanitation, solid waste management, local streets, primary education and healthcare should be made available to all irrespective of the city size. However the illusion that this will restrain migration to large cities and achieve ‘ideal’ city size distribution will not be harboured.

4. Although density and scale are necessary for economic growth they may give rise to externalities like congestion. Urban planning should direct its attention to managing such externalities and not directly controlling densities. Pricing could be (e.g. parking fees or congestion charges on vehicles) an important technique of managing externalities.

5. Land use, density or FSI zoning the most commonly used urban planning tools should be applied in a manner that does not create scarcity of land and development rights that distorts the market and forces the poor (and not so poor) to seek shelter in slums.

6. Muddling of land and property rights should be sorted out. De facto rights of squatters should be recognised. Mortgage finance be encouraged by enforcing foreclosures when required.

7. Obtaining adequate land for public purposes like roads, schools, healthcare facilities, parks and playgrounds will be the main challenge of urban planning. Using powers of compulsory acquisition, land readjustment in the form of Town Planning Schemes or conditions of conversion of use and sub-division could all be used as a part of wider menu for the purpose.

8. Conventional model of property tax and user fee revenues that service municipal bonds has not succeeded in India. One time Infrastructure Benefit Tax that relates to market value of the property when it is developed seems promising. Impact Fees are useful to finance incremental costs attributable to proposed development. Specifying low general FSI (or holding purchasable development rights by the state and then selling them) is based on distorted market and should be avoided.

In essence, the new paradigm for ur-
ban planning in India will have to be in consonance with the macro economic policies. The pursuit of ‘correcting’ the city size distribution has to be given up. The interventions at the local level have to be guided by the need to control externalities and not by axioms of ‘good city’. This is not to deny the need to aggressively provide infrastructure for expansion of cities and sustaining high densities. Generating financial resources for investment in infrastructure could also be linked to real estate development. In effect, the 11th Five Year Plans’ aim of promoting ‘competitive, livable and bankable’ cities has to truly reflect in urban planning practice. 

End-notes and Additional Thinking

1 For example Maharashtra Regional and Town Planning Act 1966 defines Development to mean “carrying out of building, engineering, mining, or other operations in or over or under, land or the making of any material change, in any building or land or in use of any building or land or any material structural change in heritage building or its precinct and includes demolition of any existing building, structure or erection or part thereof and reclamation, redevelopment and layout and sub-division of any land.”

2 Article 243 W directs the states to


5 Ibid


7 Mid Term appraisal of the 11th Five Year Plan


9 As reported in the Planning of Urban Development op.cit.


11 Planning of Urban Development op.cit


13 Henry George, Progress and Poverty (1879) edited and abridged for modern readers by Bob Drake, the Robert Schalkenbach Foundation, 2006


20 Business Plan for Mumbai Metropolitan Region 2007, MMRDA


22 Statement of Industrial Policy, Government of India, Ministry of Industries, 24th July 1991


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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
From State to Democracy: Two Views of Capitalism

In State Capitalism, the state controls everything for political rather than economic gain, ignoring the central reason for the success of a company — profit, as opposed to Democratic Capitalism which makes Democratic Capitalism more attractive.

In the late 1970s, shortly after The New York Times replaced typewriters with computers in its newsroom in New York, the editors decided to ship an early workstation to its news bureau in New Delhi. A month later, the newspaper’s bureau chief in the Indian capital received word from customs that the computer had arrived, but had been impounded. It would not be allowed into the country, the bureau chief was told, because there was an Indian version that could provide comparable services. My colleague (I was then based in Bangkok covering Southeast Asia for the newspaper) asked to see the Indian version that was being forced on him. He was told to drive to a location in central Delhi and was taken into a room. There, filling the entire room, virtually the size of the entire bureau, was a monster computer with flashing lights and lots of whirring sounds.

“This can provide all the services of your American machine,” he was told. “But it’s larger than our entire office, and it uses vacuum tubes,” the reporter replied, once he managed to recover his composure. The salesman shrugged. It was the finest India had to offer.

This was deep in the days of state capitalism in India. No longer. Today, India is a modern nation with among the most advanced, and freest economies in the world — having undergone a growth spurt that is among the fastest in the history of our planet. But it could never have been done under the constraints of the state model pursued in the years until 1991 and the end of the Licence Raj.

This was by no means my last brush with state capitalism. From France under Socialist President François Mitterrand to Eastern and Central Europe when COMECON held sway under the influence of Soviet Communism, I experienced firsthand the often grotesque inefficiencies that were paramount and often quite appalling.

In 1981, when I arrived in Paris as a correspondent for the American television network CBS News, François Mitterrand had just arrived in power with an overwhelming mandate as the first Socialist President of France in a generation. Welcoming Communist Party members to his cabinet, he also embarked on a broad campaign of nationalizations. The first, and most visible, was a vast swath of the French banking sector.

At 12 noon on November 12, 1981, the Baron Guy de Rothschild invited me to his inner sanctum in the Banque Rothschild at its headquarters at 21 rue Laffitte in the 9th arrondissement, the heart of the French banking quarter, barely a five minute walk from the Bourse. He began by taking me on a tour of his establishment that he was about to turn over to the French govern-
ment — an end to 10 generations of Rothschild banking dating to King Louis-Philippe for whom his forebears had acted as financiers. It was after the name of this street that the Rothschilds named their great Bordeaux estate and its wine label, Chateau Lafitte. “What a pity,” he said, pausing in his bank’s wood-paneled boardroom, sweeping his hand across the dozens of portraits of his ancestors looking down from the walls at the large red-leather chairs, all now empty, that surrounded what seemed like an acre of polished mahogany. “They will be staring down on communists, now sitting around this table.”

In all, thirty-six banks and two finance companies were taken over by the state, an army of talent turned out, as bureaucrats moved in and took over. But banking was only the first industry targeted by the Socialists. Within a matter of months, the government had seized control of seven of the twenty largest industrial conglomerates in France plus five other major industrial companies whose workers numbered some 800,000 individuals.

Every morning, it seemed, the French awoke to news of another private company or industry brought under state control. The railroads (SNCF), natural gas and coal, Paris subways, the two French airlines (Air France for international flights, and Air Inter for domestic travel), the auto company Renault, the state tobacco company SEITA were all under government control and ownership. Eventually France was forced to issue vast quantities of special bonds to compensate the owners and shareholders of the nationalized firms — interest payments alone running 50 billion French francs a year (between $5 billion and $10 billion depending on the rate of exchange which fluctuated wildly during the 1980s).

France’s experiment with overwhelming state capitalism didn’t last long, however. The nationalizations proved all but catastrophic to the French economy, society and the entire way of life. Moreover, support for the process all but collapsed. While overwhelmingly positive through March 1983, by October of that year public opinion had turned overwhelmingly negative. The Franc had been devalued for the third time in two years, public spending was squeezed, and the right wing, led by the man who would succeed Mitterrand as President, Jacques Chirac, was presenting some very attractive alternatives. Within a matter of months, the nationalizations had begun to be reversed. The four Communist Party members had been chucked out of the cabinet. France was reverting to democratic capitalism. In 1987, having spent four years in self-imposed exile in New York, Baron Guy returned to Paris as his son David launched the new Rothschild & Cie Banque in the rue Messine, barely a mile from the building seized from his father.

To a large extent, it’s actually the very fundamentals of the two systems that suggest the answer. In state capitalism, the state dominates the markets for one particular reason — political, rather than economic, gain. To accomplish this, it must necessarily ignore the central reason for the success of a company: profit. When politics becomes the ultimate corporate driver, the state must take several measures that so often is likely to run counter to the success of a private enterprise. The principal motive for a state-controlled company must be preservation of jobs, since an employed worker and his or her family is far more likely to vote for the incumbent government in the next election. Corporate losses mean little when the public treasury is behind the corporation and can continue to pump in funds — which can, and often does, lead to a vicious spiral of state deficits, more bond issues, higher interest rates, inflation and a currency plunging in value. But political success trumps all of this — at least in the short run. Eventually, as happened in India
in 1991 when the IMF and World Bank effectively turned off the financial spigot, forcing India to abandon the inefficient and wasteful state capitalism, the government exhausts the means of maintaining the inefficient, often corrupt and exploitive, and rarely innovative model of corporate governance.

Innovation, indeed, is the hallmark of democratic capitalism and anathema to state capitalism. Innovation involves risk, and risks imply the potential for failure, which in turn can have dire political consequences. However, since the ultimate motivation of a state-controlled enterprise is survival and jobs, rather than profit — what possible excuse could there be for remarkable innovation? When the state can simply block a smaller, faster, more user-friendly computer from entering the country, what possible motive can there be for inventing such a product when there is a totally captive domestic market?

There is, of course, one final model of capitalist system that is being practiced, admittedly with some considerable success — what I would call hybrid capitalism. This is the system in China, with variants as far afield as Cuba and Russia in the post-Soviet era, Saudi Arabia and the UAE, Malaysia and Brazil. In such a model, the state owns or controls vast portions of the infrastructure or natural resources economy, but allows a fully functioning, innovative private sector to co-exist beside it. Indeed, the state may even welcome well-heeled private investors to feed at the state-owned hog trough, while maintaining full, and unchallenged, control over what enters and leaves the trough and how it’s employed in between.

The central question is whether such systems can exist for the long term, or whether each is from the onset effectively meta-stable, meaning that it must at some point either revert to a full state-controlled system or move onwards to a system of full democratic capitalism? Some have suggested that the movement of China to full democratic capitalism is a move that must be taken in tandem with a move toward full democratic pluralism in a political sense — hence, hardly likely within the foreseeable future. China has none of the motivations that pushed India in that direction back in 1991. Its economic foundations are strong and stable. It has vast foreign currency reserves that it can use to subsidize state-controlled companies wherever and whenever necessary, and vast resources to buy new foreign markets or sources for raw materials — as both Australia and the United States have discovered, much to their respective chagrin.

China has managed to achieve at least a meta-stable form of a hybrid state- and democratic-capitalism by its extraordinary benevolence that is both a legacy of Maoist communism and self-preservation by the nation’s current most opportunistic leadership. So the nation has opened up to foreign interests, expertise and especially investment capital while at the same time keeping most closely held its principal sources of wealth — natural resources, banking, any form of manufacturing with military implications. At the same time, it has been squirreling away vast quantities of foreign reserves that serve as a significant cushion for hard times. Finally, it is most methodically opening its vast interior — still mired deep in the 19th century, often outside even a monetized economy — bringing gradually into the 21st century peasants and other villagers who would ultimately seek the wealth and power they are dimly beginning to perceive on the horizon. Such social consciousness combined with economic and fiscal savvy may indeed guarantee the communist leadership in Beijing the ability to keep full democratic capitalism, and the political democracy that inevitably accompanies it, at bay for at least another generation or two.

Brazil is another classic cautionary tale.
Here is a nation that is the investment poster-child of the Western hemisphere. Its economy is surging, its stock market up some 150 percent in the past five years, having shrugged off the recessionary meltdown of its more northerly neighbors with barely a look backwards. Now, however, its state oil company Petrobras (Petroleo Brasileiro S.A.) is considering a major recapitalization, dithering to the point where major investors, like the American private equity investor George Soros, simply bailed out of its stock altogether.

Finally, of course, there’s Russia — a nation, like India, of vastly disparate societies of haves and have-nots. With the end of communism came the official end, at least, of state capitalism. Suddenly, all bars were removed and those with contacts, friends in high places or simply enormous energy, drive or ruthlessness (often all four combined) became enormously, unfathomably wealthy. But while the old class of wealth and power — the apparatchiki — disappeared in a flash, they were replaced in a heartbeat by the new class of oligarchs. Russia never has been in any shape a classless society — even under the religion called Marxism-Leninism, which in theory eschews all classes. It is, perhaps, a tribute to the human condition, and particularly the Russian soul, that some will succeed wonderfully and many will fail miserably.

Throughout Russia’s transitionary period of true oligarchy and into the present proto-capitalist era, however, the state maintained its grip on at least some portions of the central sources of wealth. Oil, of course, remains paramount in this respect and when private oil companies — or their oligarchs — overstepped their political bounds, or failed to pay proper obeisance to the ruling elite, they found themselves quickly knocked back down to size, or shipped off to Siberia as the case may be (witness Yukos head Mikhail Khodorkovsky).

Today, in full hybrid flower, however, the nation and its key financial engines are flourishing. Stock and bond markets are strong. Foreign companies still clamor to invest or, having invested do their utmost to maintain their small slices that are never a controlling stake, in major Russian conglomerates where the state still maintains its majority control. A thriving middle class has begun to develop — a phenomenon that never existed in the clearly two-class communist era. In short, this system is working, quite admirably, at least for the moment.

None of this is to suggest, however, that such a hybrid of state- and democratic-capitalism can’t exist all but indefinitely. Clearly for the Russian people it works. Since the time of Ivan the Terrible, and before, Russians have sought a strong leader. Western style political democracy has never taken root and may never. An oligarchy, whether aristocratic, political or economic, has always ruled. Yet elsewhere, the likelihood of a successful hybrid maintaining more than a meta-stability is far slimmer.

Certainly, there was every motive for Dubai to turn its back on the flagrant, bordering on vulgar, expansion and excesses of the early 2000s when the capital (and debt) base on which its system of democratic capitalism was being constructed simply imploded after the global recession. Yet, with the help of neighboring big brother Abu Dhabi, it managed to avoid full nationalization of its faltering enterprises. Admittedly, most were majority-owned anyway by the government. But a full seizure of some of these corporations risked leaving this
vibrant nation with the international and credit rating of the most abject bankrupt when (not if, mind you) the global system has returned to full recovery, hopefully in the not-too-distant future. There were other motivations here as well, of course—largely the deep stakes that real Dubai "citizens" retain in virtually every enterprise of the emirate. But Dubai’s development is ultimately founded on the profit motive and that is the heart of democratic capitalism, even in a nation that is ruled by an aristocracy.

It is equally imperative that India resists the siren call of a return to state capitalism. The form this must take, of course, will be different from any other, as indeed any nation’s form of political and economic system and how they interact is different from any other. American capitalism and democracy, for instance, differs from the system in England, France, Germany, even Canada where parliaments rule. At the same time, there is a difference between a large and vigorous public sector and full-blown state capitalism. Indeed, in a democratic system there is certainly a role for a state sector that may take on such essential, potentially only marginally profitable, services as public transport, water supply, electricity, and the post (though in each of these cases there are certainly instances where the private sector has assumed such functions to a more or less profitable or efficient degree instead of or alongside the public sector).

In most nations, and particularly India, it has become impossible to retrace the steps of a system that once set on a new direction assumes a momentum of its own. France tried to do so, all but catastrophically, in the 1980s. Many communist states, from Cuba to Central Europe, did so in the early to mid-twentieth century. It is unlikely that any nation will try such sweeping repositioning in the future. And with the increasingly tight interlinkage of the global economy in these days of instant communications, that is a very good thing indeed.

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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
Whether the Planning Commission can be transformed into a Systems Reform Commission for resolving the extant systemic problems, as the Commission currently lacks statutory stature and doesn’t carry a substantial credibility.

R
eports emanating from Delhi suggest that a proposal for transforming the Planning Commission of India, set up in March 1950, into a Systems Reforms Commission has been initiated and the process of consultation with stakeholders and others is under way. It has been indicated that the Planning Commission will restructure itself to serve three essential functions: build a larger network around its members with think tanks and opinion makers, produce thought papers at a faster pace and communicate more lucidly with polity. Now that the Planning Commission has completed six decades of formulation and implementation of eleven Five Year Plans and a few annual plans, it is perhaps time for a retrospective analysis of its performance and an analysis of the rehaul plan, which will facilitate the XII FYP to focus on three Ps — Profits People and Planet.

Origins of Planning
While commencement of Planning in India is generally placed in 1950 when the Planning Commission was set up by a Government resolution of 15th March 1950, we should remember the earlier efforts like Sri. M. Visveswarayya’s Ten Year Plan of 1934, the Bombay Plan by group of Industrialists, the People’s Plan by Sri. MN Roy and the Gandhian Plan of Sriman Narayan. The Institutional structure can be traced to the recommendations of Conference of Provincial Ministers of Industries (1938) for the constitution of All India Planning Com-
mission and the formation of a National Planning Commission with Sri. Jawahar Lal Nehru as Chairman and Prof. KT Shah as General Secretary.

More formally, Government of India created in 1944, a Planning and Development Dept. to coordinate post war reconstruction work. In 1946 Govt. appointed an Advisory Planning Board with Sri. KC Neogy as Chairman and in December 1946 the APB recommended the appointment of a single compact authoritative planning organization, non-political and advisory character. This was followed in 1948 by the recommendation of the Economic Programmes Committee of the All India Congress Committee for setting up a Central Planning Commission and the resolution of Congress Working Committee in January 1950 recommending a statutory Planning Commission.

As a consequence of such recommendations, it was announced in the Central Budget of February 1950 that a new body will be set up “so that the best use can be made of such resources as we possess for the development of the nation”. As a follow-up the Planning Commission was set-up by a resolution of Govt. of India dated March 15, 1950, indicating that “during the last three years the Centre as well as the provinces has initiated schemes of development but experiences show that progress has been hampered by the absence of adequate co-ordination and sufficiently precise information about the availability of resources”. As a result of problems faced, “the need for comprehensive planning based on a careful appraisal of resources and on an objective analysis of all relevant economic factors has become imperative. These purposes could be achieved through an organization free from the burdens of day to day administration but in constant touch with the Government at the highest policy levels”. The GOI resolution further stipulated that the Planning Commission will act “in close understanding and consultation with the Ministries of Central Government and Governments of various States”. It is clear from the GOI resolution that the Planning Commission was conceived as an advisory body of experts, non-political in character but in close touch with policy makers.

**Organization and Process**

The institutional Framework for carrying out planning activities consisted of a) Planning Commission, set up in March 1950 with Prime Minister as Chairman and Members Incharge of various subjects assisted by a Secretariat of officials with Administrative and Professional expertise and b) Planning Departments in the State Governments. Since India is governed by a Federal Constitution and Planned Development can be meaningful only if it covered the efforts of the Centre and the States, it was decided to set up a National Development Council in August 1952 to consider and approve the plans formulated by the Planning Commission for implementation over a five year period.

The NDC has the Prime Minister as Chairman, Members of the Planning Commission and Chief Ministers of the various states as members. This lends the NDC some stature and the process of approval of five year plans a measure of authority and popular acceptability.

With a view to linking the five year plans to the budgetary processes of the centre and state Governments, preparation of annual plans with a shorter time duration of one year came into practice. The process of formulation of five year plan consisted of a) preparation of an Approach Paper as a consultative document circulated widely for eliciting comments and opinion from state governments and other stakeholders, b) assessment of financial resources and assembling of schemes and projects by different working groups, c) preparation of draft five year plan and d) approval of the five year plan by the National Development Council.

The process of formulating five year plans and annual plans, has acquired over the years a measure of acceptability, with some degree of clarity on programmes and projects, their objectives, physical targets and financial outlays, and the relative responsibilities of the Union and State Governments in mobilizing resources, and implementing the Plan.
While the extant process, has considerable merits, and a few weaknesses, the proposal to substitute this with, ‘thought papers’ and presentation of options, may only serve to dilute the plan process and deprive it of whatever strength it has. If there is any noticeable weakness in the plan process, it is more in the process of implementation, with responsibility for resource mobilization and physical implementation shared by the Union and the State Governments. To push the plan process into the vague world of thought papers and options may only serve to distance the five year plans from the challenging tasks of grappling with the ground level realities of issues of poverty alleviation, and building, technical and socio economic infrastructure for rapid development of the economy.

### Role of Planning and Finance Commission

The role and responsibilities assigned to the Planning Commission, significantly differed from those assigned to the Finance Commission, set up under Article 280 of the Indian Constitution to even out the issues arising from the mis-match of functions and legislative powers assigned to the Union and the States and their resource mobilization capacities. Article 246 and the seventh schedule distributed powers and allotted subjects to the union and the states with a three fold classification: List I, the Union list...
contains, 97 subjects, List II, the State list containing 66 subjects and List III, concurrent list with 47 subjects. As per Article 248, the Union has exclusive power on any matter not enumerated in the State or concurrent list and as per Article 254 in case of conflict between Union laws and State laws, the Union law shall prevail. The Taxation powers of the Union and State have also been indicated. Experience has shown that there is asymmetry between the functional responsibilities and revenue raising powers assigned by the Constitution to the Union and State Governments. The Constitution makers has recognized that the division of resources and function between Union and States was such that there would be imbalance between them and provided in Article 280 for appointment of a Finance Commission even five years to correct the imbalance and bring about an alignment between resources and functions.

The Indian Federal fiscal system provided a workable mechanism, by which the statutory Finance Commission and the advisory Planning Commission can re-distribute the national resources between the Centre and the States and among the latter taking into account the ability and needs of the states. In 1984, Sanjivi Guhan an economist with experiences both in the centre and states observed that “the weakness has been that in the actual working of the two commissions, there has been a lack of both clarity and coordination in regard to ways in which each Commission could address itself to upgrading ability while responding to needs and concurrently and conversely compensate for backwardness while upgrading ability.”

### Needs of Mixed Economy

It must also be mentioned that apart from federal structure of the nation, the Planning Commission had to take into account the fact Indian Economy continued as a mixed economy with role for the public sector in retaining “commanding heights of the economy” with a significant role in the build up of economic infrastructure and planning for socio economic transformation and a less significant role for the private sector catering mainly to the consumer needs with profitability of operations as the main criteria with a functional framework established through Industrial Policy Resolutions of 1948 and 1956 and later modified in 1981 and 1991. The economic scenario has changed, in the last few decades, with liberalization of Governmental regulations and assignment of an increasingly larger role for the private sector in not only production of goods but also provision of services which were hitherto mainly in the domain of governments, local authorities and public sector enterprises. The plan formulation and time phasing of investments have to be adjusted to the changed scenery.

### Plan Objectives

Development Plans since the 50s, were initially guided by objectives of growth with social justice, self reliance and balanced regional development. These were later modified in the nineties to emphasize pursuit of rapid economic growth, balancing equity and efficiency. The national perspective and broad political vision that emerged in the initial decades of planning has somewhat been clouded by the recent upsurge of regional aspirations and narrower caste and commu-

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**Table 2: Formulae for Plan Assistance**

<table>
<thead>
<tr>
<th></th>
<th>Gadgil Formula</th>
<th>First Revision</th>
<th>Second Revision</th>
<th>Third Revision</th>
</tr>
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<tbody>
<tr>
<td>Special Category States</td>
<td>30</td>
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<td>30</td>
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</tr>
<tr>
<td>General Category</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1. Population</td>
<td>60</td>
<td>60</td>
<td>35</td>
<td>60</td>
</tr>
<tr>
<td>2. On going Irrigation Power Projects</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3. Per capita Income</td>
<td>10</td>
<td>20</td>
<td>25*</td>
<td>25</td>
</tr>
<tr>
<td>4. Performance</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>7.5**</td>
</tr>
<tr>
<td>5. Special Problems</td>
<td>10</td>
<td>15</td>
<td></td>
<td>7.5***</td>
</tr>
</tbody>
</table>

*20% As per deviation method covering only states below national average and 5% as per distance method covering all the states.
** Further divided into 2.5% for tax effort, 2.5% for fiscal management and 2.5% for national objectives. (population control, Female literacy, on time completion of externally aided projects and successes in land reform)
*** Special problems of border, desert, flood prone, drought prone, and metropolitan areas, refugees settlements and high unemployment
The second revision lowered the weightage for population & increased the weightage of per capita income

nity interest. The mutually influencing political activity and the implementation of economic programmes have significant impact on the pace and pattern of growth and even more on spread of benefits across communities and states. The implications of the change in emphasis on policy goals and implementation process need to be studied in depth and findings published, as there is currently a revisit to the old questions of Role of State Vs. Market and Speed of growth vs. quality of growth. The current emphasis on inclusive growth is an offshoot of this debate.

Increases in Plan Investments

Plan outlays have increased from Rs. 1,960 crores in the First Five Year Plan (1951-56) to Rs. 15,25,639 crores in the Tenth Five Year Plan (2002-2007). The Eleventh Five Year Plan (2007-2012) has been approved with an outlay of Rs. 36,44,718 crores and is in the process of implementation (see Table 1). The Planning Commission is getting ready with an approach paper to the Twelfth FYP. As earlier mentioned the Federal Constitution of India required investment planning and implementation of schemes to be carried out by both the Union Government and various State Governments. It may therefore be appropriate to take a look at not only the total investments under the various plans but also the relative shares of the Centre and the States in plan expenditure.

It is seen that the Centre’s share in Plan Expenditure has increased from 36.02% in the First FYP to 58.5% in the Tenth Plan, while the share of the States has come down from 63.52% to 41.5% in the corresponding period. It must be remembered that the centre’s expenditure will cover transfers to the States for implementation of central sector and centrally sponsored schemes, apart from central assistance for state plans.

Plan Assistance to States

While in the initial decades of planning central assistance for state plans was dictated by discretion of Planning Commission Members, resulting at times in avoidable controversies, a significant step towards formula based assistance common to all states was taken by Prof. DR Gadgil in 1969 and revised by the Planning Commission in 1980, 1990 and 1991 (See Table 2). The Gadgil formula made a distinction between special category states and other states and tried to evolve criteria for distribution of Central Plan Assistance on the basis of size of population, per capita income, outlays on irrigation and power projects and special problems of the state. The first revision made in 1980 eliminated the outlay on irrigation and power projects as a criteria for central assistance and increased allocation for per capita income as a criteria. The second revision made in 1990 lowered the weightage for population and increased the weightage of per capita income. The third revision made in 1991 restored the weightage for population and modified the weightage for performance and special problems. The formulae for plan assistance from centre to the states has to be seen with the other stream of flow-devolution of taxes and grants in aid recommended by the statutory Finance Commission appointed every five years.
It is clear that formulae for transfer of central resources to states with equal emphasis on equity and efficiency call for care in not only choice of criteria but also close consideration on the weights to be assigned to each criteria. The changes in the criteria and weightage made by the various Finance Commissions indicate a shift from population and per capita income as the dominant factors to consideration of performance of tax effort and fiscal discipline. The need to bring, expenditure and debt management within this fold is evident. The formulae for central assistance for plans continue to give high weightage to population and per capita income even after revisions in 1980 and 1990 and there is also fine tuning of the criteria for judging performance. It must be, however, recognized that, the weightage assigned to performance has been relatively lower in comparison with the weightage given to population and poverty.

**Performance as Criteria**

Both Finance Commission and Planning Commission have tried to improve the manner of application of the income criteria, by considering different weightage to distance and deviation and alternative formulae. Similarly, criteria for performance have also been subjected to changes and refinement. The weightage of 10% each given to performance and special problems by Gadgil Formula of 1969, was subsequently modified in 1991 with weightage of 7.5% each for performance and special problems, with the performance weightage objectives.

Similarly Finance Commission have also been changing the criteria of fixed transfers to the states. While the Tenth Finance Commission give a weightage of 10% to tax effort calculated as per formula evolved by it, the Eleventh Finance Commission not only reduced the weightage to five percent but also changed the manner of computing the states share on the basis of tax effort and further introduced fiscal discipline as criteria with 7.5% weightage. There is some degree of confusion in the State Governments resulting from these frequent changes in the choice of criteria, assignment of weightage and method of computation of share of individual states. There is a felt need for not only care in the choice of criteria and for balance in the assignment of weights, but also a measure of stability and continuity regarding this.

The role that the Planning Commission plays in the examination and approval of state plans will call for close consideration as, on the political firmament there have been significant changes with different political parties and their combinations coming to power at the Centre and in the States. Demurring voices about non clearance of schemes and projects by the centre are now more common and strident than they were in early decades of planning. Unless the Planning Commission is so re-constituted as to bring in expertise and local knowledge regarding the various regions and states, the planning process may continue to suffer from the unwillingness of states to accept the Yojana Bhavan dictates and advices. What is urgently needed is a substitution of the well meant but rarified academic wisdom of Yojana Bhavan by states-specific development strategies with adequate appreciation of the local needs and persisting differences in the resource endowments and levels of development of the various States.

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**Table 3: Growth Rate Performance in the Five Year Plans**

<table>
<thead>
<tr>
<th>SL</th>
<th>Plan</th>
<th>Target</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>First Plan (1951-56)</td>
<td>2.1</td>
<td>3.60</td>
</tr>
<tr>
<td>2</td>
<td>Second Plan (1956-61)</td>
<td>4.5</td>
<td>4.21</td>
</tr>
<tr>
<td>3</td>
<td>Third Plan (1961-69)</td>
<td>5.6</td>
<td>2.72</td>
</tr>
<tr>
<td>4</td>
<td>Fourth Plan (1969-74)</td>
<td>5.7</td>
<td>2.05</td>
</tr>
<tr>
<td>5</td>
<td>Fifth Plan (1974-79)</td>
<td>4.4</td>
<td>4.83</td>
</tr>
<tr>
<td>6</td>
<td>Sixth Plan (1980-85)</td>
<td>5.2</td>
<td>5.54</td>
</tr>
<tr>
<td>7</td>
<td>Seventh Plan (1985-89)</td>
<td>5.0</td>
<td>6.02</td>
</tr>
<tr>
<td>8</td>
<td>Eighth Plan (1992-97)</td>
<td>5.6</td>
<td>6.68</td>
</tr>
<tr>
<td>9</td>
<td>Ninth Plan (1997-2002)</td>
<td>6.5</td>
<td>5.5</td>
</tr>
</tbody>
</table>

Note: The growth targets for the first three plans were set with respect to National Income. In the Fourth Plan it was the Net Domestic Product. In all Plans thereafter is has been the Gross Product at factor cost.

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Between 1950-51 & 1980-81 the share of Agriculture went down to 41.8%, while that of Industry increased to 21.5%
Change in Structure
An important aspect of the economy in the first three decades of plan development was the change in its structure, slow in the fifties and quite noticeable in the sixties and seventies. Between 1950-51 and 1980-81 the share of Agriculture went down from 59.2% to 41.8% while that of Industry increased from 13.3% to 21.5% even as the share of Services rose from 27.5% to 36.9%. The next 25 years between 1980-81 and 2005-06 saw sharp decline in the share of agriculture in GDP from 41.8% to 21.7%, slow rise in share of Industry from 21.5% to 24.1% and significant increase in the share of services from 36.7% to 54.2%. The structural change needs to be more clearly considered in setting priorities for plan investments.

Growth Performances of the Past
The FYP set out growth targets for achievements and indicated plan outlays with investment quantum, budgetary support and extra budgetary resources. The growth targets for the first three FYP were set out with respect to national income. The fourth FYP set out growth with target interest of net domestic product and all subsequent FYPs have set targets for growth of GDP at factor cost.

Looking back, we notice that while the plan outlays increased from Rs. 1960 crores in I FYP to Rs. 1,525,639 crores in X FYP the average growth rate of Gross Domestic Product not only fluctuated from Five Year Plan to Five Year Plan but was also below the target set in the plan documents (see Table 3). If one took the average of the first twenty five years of planning 1950-1975, the annual growth rate was about 3.5%. While the economy trudged along there was a considerable slack in the system and more than a measure of indiscipline in the economy the controversial imposition of emergency hurt the civil society but considerably improved the implementation of economic and other programme. The average growth rate of GDP moved up to 5.5% during the VI FYP and 5.8% during the VII FYP. In the following decades thanks to important policy changes, most notably liberalization of controls and regulations since 1984, and moves for integration with global economy since the early nineties, the Indian economy moved into a higher trajectory of growth with a average annual rate of growth moving up from 5.6% during VI and VII FYP to 6.7% during VIII FYP, reverting to 5.5% during IX FYP before rising to 7.6% during X FYP. The XI FYP projected an higher growth rate, but the implementation at face the challenges of global recession. The gradual revival of the Indian economy has once again revived prospects for higher growth rates.

Assessing Growth Performance
There have however been questions on the quality and sectoral distribution of growth. While scholars and others have applauded the higher growth rate of GDP achieved in the 25 years, and have attributed this to the policies of liberalization and globalization one should take note of doubts expressed in some circles whether this is a statistical phenomenon as most of the increases is accounted by the Service Sector in which measurement of value can be fluctuating and error prone. Analyzing the growth from the point of view of employment generation, scholars have pointed out that the recent
years witnessed “jobless growth”. Employment growth fell sharply from the post reform years from 2.6% p.a between 1983 to 1993 to 1.2% between 1993-2000, with a noticeable fall in agricultural and organization sector. During the 55th meeting of the National Development Council held recently, the Chief Ministers of various states pointed out the link between employment for younger generations and growing extremism and some argued that it will be better if the economy grew at seven percent and created more employment opportunities than growing at 10% without increasing job opportunities. Obsession with higher rates of macro economic growth has to be tempered with meaningful spread of opportunities for jobs and income across sectors of the economy and various states.

Analysts have pointed out that economic growth, noticeable at the macro level has not spread evenly across the states, with regional disparities increasing, and that as a result successive Finance Commissions have to provide substantial allocations from Central Tax Revenue to some backward states. Sociologists have also been highlighting that the socially and economically backward classes people entitled to constitutional protection have not got their due share of benefits. There is a view that higher rates of economic growth have not contributed to balanced regional development or equitable growth of all sections of society. This has long term implications for India’s teaming millions and brings into focus the issue of “measurable growth and meaningful growth”.

The Indian economy whose production base was broadened and increased by rise in demand from domestic consumers, during the first four decades of planned development has certainly received increased trade benefits from the external orientation of policy and programmes in the recent years. Along with these benefits came the unavoidable impact of global financial meltdown in 2008-09. While the nation benefited from the circum-spect policies pursued in capital account and current account convertibility in moderating the impact of financial meltdown, the downturn in major economies has certainly affected trade and is now having a lagged effect on domestic employment and income growth. This should be kept in view while we discuss measures to sustain high growth rate in the economy and consider steps to protect different sections of society.

Conclusions
While the sharp increase in the plan outlays at the centre and the states have become noticeable, there is continuing concern over the issues of equity in redistribution of resources and efficiency in utilization of resources, particularly, in determining the respective shares of various states in federal transfers. Public Finance analysts have pointed out that resolving tension between equity and efficiency is a fundamental challenge in public policy. In the federal context, this creates a dilemma for those interested in the task of adjudicating the transfer of federal funds to the states.

What is significant and should not be missed by any one is that in India, the pressures of economic growth and financial management are inextricably intertwined with social and political objectives of governance. Rate of growth is to be assessed along with its quality, and distribution equity. That has been the sheet anchor of our development planning. Reiterating this, in his address to the nation on June 25, 2004, the Prime Minister Dr. Manmohan Singh had observed that “Equity and efficiency are complementary, not contradictory, and we must move forward on both these, while maintaining a high degree of fiscal and financial discipline and a robust external, economic profile”. The Prime Minister also observed that “at a regional level the disparities are high and while some regions of the country seem to be on an accelerating growth path, there is a concern that other regions are not only lacking but are also falling behind” and that “as a nation we cannot accept such disparities”.

Makeover of Planning Commission?
Given the benefit of experience of formulation and implementation of development plans of over six decades, we should be ready to consider various suggestions for a makeover of the Planning Commission, in so far as its contribution to the sustained and inclusive growth of the economy. It is however a moot question whether the Planning Commission can be transformed into a Systems Reform Commission for resolving the extant systemic problems as proposed by some. For one thing the Planning Commission
as it is constituted now, lacks statutory stature and its present composition with a dominance of Delhi based and Union centric economists and bureaucrats does not lend it much credibility. On the other hand there are genuine apprehensions among States regarding the content and quality of its prescriptions. This in itself may be a good ground for the makeover of the Planning Commission. However timing acquires significance. At a time when questions are raised about the domains of the Constitutionally empowered Judiciary the Legislature and Executive and there is an overhang of uncertainty, the scope for Planning Commission to metamorphose itself into a Systems Reform Commission must be considered limited, unless the nation is got prepared and ready to effect Constitutional amendments. That does not appear to be visible on the horizon. (ER)

(SRI.V.K.SRINIVASAN is an Economist with rich experience in Civil Service, particularly in Finance and Planning as also Industries, as an official of Government of Andhra Pradesh and India. As Director in the Plan Finance Division, Ministry of Finance, Government of India he was responsible for Plan Schemes, Capital Budgeting and Investment Appraisals of major projects in the Steel, Petroleum, Power and Heavy Engineering Industries in the Central Public Sector. As Director (Finance) Ministry of Works & Housing (1979-81), he was responsible for financing major projects for urban development in different States. Known for combining academic aptitude and operational knowledge, Sri Srinivasan has received recognition for his formulation of the Drought Prone Areas Programme, Science and Technology plan for Karimnagar District, Project Report for Commercial Bank Branches expansion and Regional Rural Banks Programmes for Andhra Pradesh, Special Employment Programmes, Plans for Utilisation of Natural Gas in the Krishna Godavari Basin and more recently the Report for Restructuring State level Public Enterprises in Andhra Pradesh. With background, in Multi-Sectoral Planning and Investment Finance Sri Srinivasan has generally been chosen to coordinate State Government activities with Ministries of Government of India, Commercial Banks and All India Finance Institutions. Post retirement, Sri Srinivasan has conducted studies for the Union Planning Commission and Twelfth Finance Commission on Efficiency of Public Expenditure and Federal Fiscal Transfers. In his capacity as an Economist, Sri Srinivasan was regularly invited to the Union Finance Minister’s Pre-Budget consultations between 1998 and 2005 and to be Guest lecturer, various Research Centres. He has been a regular contributor to the Hindu and the Indian Express for over four decades and to the Economic Times (1965-85) and the Hindu Business Line (1990s). He is now serving as Vice Chairman, Indian Institute of Economics.

DR. S CHAKRAVARTHY is a Civil Servant by profession, being a Member of the Indian Administrative Service. He is a Masters Degree holder in Mathematics and Statistics having stood First Class First in the University. After joining the Government, he got a Doctorate Degree in Management from the Indian Institute of Technology, Delhi. Subsequently he secured a Law Degree from the Delhi University. In addition, he has certificates in Public Administration and Public Enterprises from the University of Manchester, UK and Harvard University, USA. His experience as a Civil Servant in India over 4 decades (1961-2002) has been essentially in the areas of Industries, Commerce, Management of State-Owned Enterprises, Corporate Law Implementation and Competition Law Enforcement. Competition Policy, Industrial Development and Export Promotion have been central to his specialisation. Specifically, this includes formulation and implementation of industrial policies of the Government of India, revival of sick State-Owned Enterprises and adjudicating disputes under corporate and competition laws. Competition Law enforcement and management, International Trade and dealing with WTO issues with a strong emphasis on consumer and public interest have been his focus area in the past decade. Among the top assignments he held were Special Chief Secretary to Government and Member, Monopolies and Restrictive Trade Practices Commission. As Member, Company Law Board and Member, Monopolies and Restrictive Trade Practices Commission, his experience as adjudicating Tribunal is around 10 years. Presently, he is Advisor/Consultant on Competition Policy and Law. He has specialized in the field of Intellectual Property Rights with emphasis in the field of Geographical Indications. He is associated with assignments of securing protection of Geographical Indications Rights for products, particularly in the State of Andhra Pradesh. Recently, in 2009, he was engaged as a Resource Person for training trainers in Bangladesh — a CUTS project. He is the President of the South Indian Cultural Association, Hyderabad and Chairman, Shanmukhananda San-geetha Sabha, New Delhi.

The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
Financial Inclusion
A Viable Option for Inclusive Growth

Financial inclusion will help in striking a balance by channelizing the surplus to deficit units and bring the poor people under the growth metaphor.
The theme of the paper is to understand the inter-relation between financial inclusion and its overall contribution to economic growth and the impediments to financial inclusion in Indian scenario and what needs to be done to encompass all those financially excluded into the folds of inclusive class. Financial inclusion has much wider perspective not confined to bare minimum access to no frill accounts but on a larger canvas it is to deliver affordable financial services to vast section of the society, devoid of any disparities in income and other social structures. As its’ a fact that one segment is deluged with assortments of banking services encircling regular banking facilities, portfolio counseling on the other end — a class of underprivileged and lower income group are totally deride of even basic financial services. Though the banking industry has grown both horizontally and vertically but the branch penetration has not been that enthusiastic with population load even after passing decades of nationalization, whose rationale was to shift the focus from class banking to mass banking. And given the demographic dynamics in Indian context the complexities are further aggravated, which calls for multi-level, multi-dimensional framework to address the issues relating to financial inclusion.

Rangarajan Committee (2008) viewed financial inclusion as “The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. All efforts made to encourage financial inclusion will turn futile, unless the deprived class is brought into mainstream banking and channelizing banking services to diverse class of the society whose 37.2% population (as per Tendulkar Committee Report) reeling under poverty with majority contribution is from the rural belt will be daunting challenge which needs spirited policy adjustments, innovation in product dynamics, proficient human resource and technological circumvention at all levels to marginalize the hiatus. A conventional and unconventional measures needs to be advocated as orthodox banking practices will head nowhere in breaking the bottlenecks faced at the grass root level.

Why Speaking about Financial Inclusion

It is imperative that inclusive growth without financial inclusion will not succeed in achieving equitable objectives as financial inclusion can truly fortify the economic standards of the poor and the disadvantaged whose enrichment is foremost prerequisite for a nation encumbering growth trajectory. And the issue is aptly discussed in academic literature that there exists a correlation between financial development and economic growth. And when we are in the process of annexing second generation reforms one cannot imagine that a third of the population is under poverty level. Here financial inclusion will help in striking a balance by channelizing the surplus to deficit units and bring them under the growth metaphor. The more the development larger is the thrust on em-
powering the low income group. And with experiences of Grameen Bank (Bangladesh) has brought a new paradigm to the banking practices by changing the perception that poor are bankable and given a direction for the world community for diffusing of banking services and a business model which is highly rated and most valued.

**Efforts Made for Financial Inclusion**

Time and again Government of India and Reserve Bank of India were proactive in order to augment the banking penetration. Some of efforts made in this direction were facilitate the co-operative Movement; Setting up of State Bank of India; Nationalization of banks in two phase one in 1969 and the other being 1980; initiation of Lead Bank Scheme; establishment of RRBs (Regional Rural Banks); Service Area Approach; introducing Self Help Group – Bank Linkage programme. Moreover the government has emphasized it’s explicitly the need for overall inclusion in the development process through its MGNREGS, Bharat Nirman Programme.

**RBI’s Contribution**

Banks were given direction to make available no-Frill Accounts by RBI in November 2005 to expand outreach of such accounts to major sections of the society. Simplification of KYC norms for low income group. One of the pivotal developments being banks were permitted to avail the services of NGOs/SHG, micro finance institutions and other financial intermediaries to facilitate the banking services under BC / BF Model. Simplification of guidelines under KCC / GCC scheme in rural areas enabling customers’ easy access to credit and mechanism for one time settlement of loans with principal amount up to Rs. 25,000 which have turned doubtful or non performing asset. Loans granted under Government sponsored schemes were advised to frame separate guidelines following a state specific approach evolved by the SLBC. Liberalized regime for branch expansion and setting up of ATMs. Introduction of technology products and services like Mobile Banking, Biometric ATMs, Mobile ATMs etc. Allowing RRBs’ and Co-operative banks to sell Insurance and Financial Products under bank assurance channel. Promotion of financial literacy program and creation of special funds.

**What has been Achieved?**

- 431 districts identified by the SLBC convenor banks for 100 percent financial inclusion across various States/UTs and the target in 204 districts of 21 States and seven UTs has reportedly been achieved.
- Number of No-Frill Accounts — 28.23 million (as on December 31, 2008).
- Number of rural bank branches — 31,727 constituting 39.7% of total bank branches (as on May 31, 2009).
- Number of ATMs — 44,857 (as on May 31, 2009).
- Number of POS — 4,70,237 (as on May 31, 2009).
- Number of Cards — 167.09 million (as on May 31, 2009).
- Number of Kisan Credit cards — 87.83 million (Source: NABARD).
- Number of Mobile phones — 403 million (as on April 30, 2009) — out of which 187 million (46%) do not have a bank account.

**Table 1: Penetration of Banking Services in India**

<table>
<thead>
<tr>
<th></th>
<th>Offices</th>
<th></th>
<th>Deposits</th>
<th></th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>22.2</td>
<td>51.2</td>
<td>45.7</td>
<td>6.4</td>
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<tr>
<td>Semi Urban</td>
<td>40.4</td>
<td>21.3</td>
<td>22.3</td>
<td>21.8</td>
<td>19.5</td>
</tr>
<tr>
<td>Urban</td>
<td>19.2</td>
<td>15.2</td>
<td>17.6</td>
<td>26.5</td>
<td>22.4</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>18.2</td>
<td>12.3</td>
<td>14.4</td>
<td>45.3</td>
<td>43.7</td>
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<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: RBI.
**Shortcomings**

**Lack of Financial Literacy:** Low literacy rate has been a great impediment for financial inclusion as ignorance caused low levels of awareness causing difficulty to communicate the necessity for banking habits and what savings can do to enrich their living standards. With little knowledge it turns out to be difficult task to make them understand the product features and second the complex legal terminologies.

**Gap in Technology:** Next generation of banking is era of technology, an inevitable source to improve branch infrastructure in terms of usage, increase outreach and help in scaling up activities. With growing spread in clientele and the need for servicing them once the relationship is established will call for low cost delivery alternatives and technology can be leveraged to increase delivery channels at lower cost, have better internal controls, augment the competency, safety and reliability of the payments and remittances system and develop a credit information system for future requirements. IT can reduce cost and time in processing of applications, maintaining and reconciliation of accounts and enable banks to use their staff at branches for making that critical minimum effort in sustaining relationship especially with new account holders.

**Language Barrier:** One of the major hitch in financial inclusion being non availability of printed literature in regional vernaculars which is otherwise a prerequisite for reaching the masses. Thus a barrier is immediately created for communicating the need for inculcating banking practices. As most of the literature in the banking industry are in bilingual mode (Hindi / English), with large demographic spread are habitually jeopardize by the ignorance of language which creating a fear psychosis. As it’s often found that language is a mode by which people try to identify and connect one self. Here every possible effort should be made to present printed literature in regional languages so that the message can be delivered in a larger vein thereby attracting people from all walks of life.

**Trained and Compassionate Manpower:** Human resource has been the crux for successful endeavors. In all counts trained manpower is a versatile asset which can be harnessed to achieve visionary goals. This has been the void that needs to be plugged from the grass root level as found most of the staff are either semi skilled or trained only for performing regular banking activities, but what needed is versatile manpower with a human touch who can feel the pulse of the consumers and shifting gears as according to circumstances.

**Statutory Documental Requirements:** The necessity for simplifying the documentation procedures in opening a SB account is utmost prerequisite (KYC Norms) as people from both urban and rural belt with low incomes face problem when they approach banks or in turn are approached by the banks or financial service provider for opening accounts. RBI should set guidelines for alternative mode of identification as the essence of Know Your Customer is to identify a person by profession and class and second prevent any unforeseen event harming the interest of the nation. In case of rural belt the help of Gram Pradhan or Sarpanch (Village Head) can be used to identify a person if a document can be issued in his or her name stating his or her credentials it can be taken as viable document. Eccentric practices needs to be advocated otherwise the vision reaching the mass with banking services will receive a setback.

**Lack of Customized Products:** As people differ in their perception, opinions and thoughts so does their needs. The banking industry has to understand this basic philosophy and develop customer centric innovative prod-
The whole banking industry is offering generic products matching the needs of urbanized population and arsenal of other services where as the unbanked still remains to see the light of the dawn.

**Infrastructural Requirements:** With the liberalization branch opening under new branch authorization policy of RBI which encourages the opening of branches in under banked or unbanked areas. But they are still excluded population in all the parts of the country stretching from North-Eastern Belt, the Eastern and Central zone. Infrastructural deployments are not that enthusiastic to run even a satellite operation which requires power, telecommunication services and roads for geographical access. Though, under RIDF scheme government a corpus of 4,500 crore has been raised for partly funding the rural roads and bridges components of the Bharat Nirman Programme for the period 2009-10. But lot of grounds needs to be covered in this area and a required blue print for future endeavors.

**Transaction Cost Too High:** The assumption offering basic banking services to under privileged and low income group will not be viable and incur additional burden for up-scaling and capacity building is a myopic vision the experiences of banking industry world over and with award winning Nobel Laureate Md. Yunus modeling of Grameen Bank is an unparallel example delineating that economically backwards are bankable. And regarding the high transaction cost, the cost can be averaged among the populace and technological innovations in IT services will help to build low cost service modules to support the backend operations.

**Lack of Interest / Involvement of Big Technology Players:** It is highly disappointing that big technological vendors showing meager interest in joining hands with banks to evolve business solution which has universal application. The challenge will lie in developing low cost alternatives for mass markets. With participation from biggies with superior technology can easily blend with the constraints can develop platform for mass scale operation and as for the cost involved for research and development which can be shared by forming a consortium were Government of India can also be participant.

**Suggestive Line Action**

**Technological Intervention:** Rural belts are poorly connected and customers needs to be drawn into the system as under privilege and low income groups are in the pursuits of daily employment and hence it call banks to make extra efforts to reach them through a variety of devices like branch on wheels concept, Biometric ATMs and using mobile phones as a platform for banking transactions as the penetration in both urban and even in rural areas has surpassed expectations. Biometric voice interactive Hand held devices backed by technical support rendered by telecom service provider can be effective instrument for banking in unbanked areas for real time settlements at extreme low cost. Once the data base and track record is established then an array of financial services can be offered apart from general banking transactions like utility payments, loans and insurance products. Technology will open new frontiers for financial inclusion and offer a huge potential in terms of business and banks therefore need to take aggressive steps to use technology, as a mechanism to exploit potentials in innovative and creative manner. In fact technology is critical block for future endeavors apart from providing operational support, to building massive
Efficient Delivery Mechanism: The use of intermediaries will only augment the process of financial inclusion by connecting people to banks. And the involvement of SHG, community leaders and especially the state-level administration at grass-root level (PRIs) in India would bolster the concept of door step banking and enable effective penetration into under-served areas. Focus should be to synergize the local entities with the broad based goals for improving bankable activities and up-scaling this program for financing productive actions. While up-scaling the SHG–bank linkage program, care needs be taken to identify the group, ensure their integrity and their reputation before exercising the project. Up-scaling additionally call for knowledge enhancement and capacity building. Though Khan Committee spelt out the agent related risk in the CGAP paper but on the contrary intermediaries functionaries enables risk reduction where the group is disciplined and social capital acts as credit enhancements. Banks should enter into agreement with postal authorities to use their wide area network and reach of post offices as business correspondents to outreach the masses by leveraging the proximity of the postman to the local population, his intimate knowledge of their backgrounds and the trust reposed on him.

Proactive involvement of RBI is required when such unconventional mode of operandi is facilitated. RBI should set framework on use of business correspondents and facilitators as outsourcing agents and review the process in regular basis to provide solidity. The use of MFI as indirect mode for credit disbursals to large segment of poor and needy customers can add another dimension one helping banks to minimize credit risk and the second social upliftment.

Spreading Financial Literacy: An aggressive drive is recommended to raise literacy standards to spread financial literacy “which is a mechanism by which an individual can understand the concepts and risks embedded in a financial product and develop skill to build confidence and identify the potential financial hazards and prospects to make informed choices to improve economic standards”. The context of financial education has a broader understanding which involves understanding the behavioral and psychological factors which is innate to an individual which could be major barriers. Thus promoting intensive awareness by adult education programme, enact village stage shows, public campaigns, usage of mobile phones, using electronic media for promoting innovative advertisements, village panchayats, local school masters, and platforms like e-choupal and Srei Sahay can provide extra edge to reach the goal. Banks should avail the support of social organizations and village leaders who are well informed and undergone schooling to spread the need of joining the mainstream and remove any unnecessary fear housing in their minds.

Product Innovation: Mere offering a no frill account may help in so called to real-
ize to increase the number of accounts but in holistic term there will be a big void in terms of financial inclusion. Financial inclusion is not limited to only opening saving bank account with zero balance facility but it means to offer a wide array of financial services from credit counseling, offering insurance and MF products, remittances facility etc. There is dearth in innovation in developing tailored made products to appeal various classes according to their individual requirements. Product innovation will help in great way in spreading financial deepening as it will be easy to approach masses and provide easy solutions. Just imagine to package SB account with Rs. 50,000 accidental policy embedded into it extending protection against mishap or daily collection saving account with daily deposit ranging from Rs. 1 to 10 depending on financial capacity ideal for BC/BF model. Offering daily deposit SB account with added with Life insurance protection with collection of Rs. 10 per day and out of which Rs. 2 can be earmarked for policy premium. On the similar lines products for credit can also be develop to accommodate the credit requirements.

**Appropriate Business Model Yet to Evolve:** Appropriate strategies and business model needs to be developed as penetration in rural belts and low income urban and semi urban population is altogether a different challenge. Here traditional mode of banking will be highly unsuccessful first owing to the fear psychosis, lack of financial literacy, low propensity to save among low income group but not saving with financial institutions or practically no saving habits, seasonal employment or unemployment, lack of proper credentials to support KYC norms etc. Unconventional business modeling needs to be advocated which will require attitude, will power and support from government machineries.

**Regulatory and Policy Interventions:** RBI cannot just remain a regulatory body but has a huge responsibility in Indian context with respect to financial inclusion. Necessary legislation and guidelines can be enacted at any point of time but implementing those measures with other participants is where the challenge lies. RBI needs to regularly monitor whether the financial institutions are adhering to the commitments made both to Government and the public. Mere formulation of policies and half hearted efforts will not help the cause. Single minded focus, diligent efforts and involvement of all is the prerequisite for financial inclusion. Setting standards and bench-marking for target achievement and rewarding the institutions for their excellent delivery in way motivate others to join the social and economic cause.

**Conclusion**
The economy is in the path of growth trajectory and with vibrancy in all round economic activities as well as creation of new activities apart from a lean period of 18 months resulting from the global turmoil the economy resilience needs to be appreciated. The main driver being the manufacturing sector which grew at
16.3% in the last quarter, mining 14% (Q4) and the overall GDP growth was 7.4% in the year 2009-10 only China surpassed with higher growth rate at 11.9% in the January–March quarter whereas rest of the world are witnessing fragile recovery aftermath the global financial crises. At present the financial depth in Indian scenario is not that encouraging against Asian countries though it has gained momentum. As deepening financial system and widening its reach is crucial in terms accelerating the growth and achieve equitable objectives. With sudden burst in entrepreneur drive across the country will require additional financial support to nurture them. With pressure for credit delivery will need to mobilize additional resources from a wider deposit base. Thus financial inclusion will help strengthen financial deepening and enable resource mobilization for extending and broadening credit leading to economic development and accelerate growth.

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Inclusive Growth in India
Past Performance and Future Prospects
Rates of poverty reduction have been helped by rapid growth in agriculture, public expenditure on social services, particularly education and health, infrastructure and the quality of governance.

After three centuries of relative and often absolute poverty, India has in recent decades begun to return to its previous position as a global economic power, and this process has accelerated over the last few years. Growth in the Indian economy was quite low in the first 30 years of planning after Independence — from 1950 to 1980. Despite some fluctuations in the next two decades gradual but sustained improvement produced an average rate of growth of 5.7% per annum for the 20 years to 2000. Building on that base, the economy appears to have achieved take-off into a higher growth plane, with real GDP growth averaging 8.1% per annum in the three years 2003-04 to 2005-06, and the target growth rate of 8.5% over the 11th Five Year Plan period, 2007-12. While many challenges remain, the challenge of making India’s economic growth more inclusive by reducing entrenched poverty is a
principal challenge. The aim of this paper is to examine India’s record in poverty reduction in recent years and to outline measures that might help to strengthen the channels through which the benefits of economic growth flow to the poor. The concept of inclusive or pro-poor growth is considered in section 2. A comparison of India’s performance in reducing poverty with some of the Asian countries follows in section 3. How India’s objective of more inclusive growth might be achieved in the future is discussed in section 4, before concluding the paper in section 5.

II. Inclusive Growth

India’s government has made “inclusive growth” a key element of their policy platform, stating as a goal: “Achieving a growth process in which people in different walks in life… feel that they too benefit significantly from the process.” (Ahluwalia, 2007).

How a country may achieve a self-sustaining transition from traditional to industrial economies has been addressed by many contributions to development theory. Economic growth models do not establish or suggest, however, an explicit causal-effect relationship between a country’s rates of economic growth and the resulting poverty reduction, although policymakers often assume an implicit connection. The current literature provides some guidelines about conditions under which economic growth might be ‘inclusive’ or ‘pro-poor’, although how these concepts should be defined remains controversial. One view is that growth is ‘pro-poor’ only if the incomes of poor people grow faster than those of the population as a whole, i.e., inequality declines (e.g., Kakwani and Pernia, 2000). An alternative position is that growth should be considered to be pro-poor as long as poor people also benefit in absolute terms, as reflected in some agreed poverty measure (Ravallion, 2004).

The nature of this debate can be illustrated in Figure 1, which depicts the share of GDP for the richest 30% population on the vertical axis and that for the poorest 30% of population on the horizontal axis. From a hypothetical base case scenario equilibrium represented by point A, potential benefits of a Pareto optimal growth strategy may be viewed to fall anywhere within the space bounded by the points BAC. For example, movement from point A to point B in Year 1 represents a situation in which economic growth has raised the GDP share of the rich population, without making the poor any worse off. Alternatively, movement from point A to point C depicts the case in which the benefits of ‘new growth’ have raised the plight of the poor, but without making the rich any worse off. Any point situated on the 45 degree line would make the rich and the poor equally better off by dividing the benefits of growth equally between the two groups. Any point lying in the blue triangle would depict the larger share of the benefit going to the rich, just as any point in the unshaded triangle would depict the larger share of benefits accruing to the poor. Kakwani and Pernia’s definition would require the impact of a pro-
poor growth strategy to lie in the unshaded triangle (where the poor benefit more from growth), whereas Ravallion and Chen (2007) would accept growth to be pro-poor so long as the poor also benefit from growth (i.e., new equilibrium point lies anywhere to the North-East of point A, irrespective of which triangle). This is because by their definition, growth is still pro-poor, even if it results in greater inequalities. Indeed, that is precisely what has happened in India; the rich have benefited more than the poor from economic growth since 2000.

III. Poverty Reduction In India
The measurement of poverty has also been not without controversy. Much of the literature on poverty relies on different measures of income-based poverty: defined in terms of national or international poverty lines (e.g., US$ 1.00 per day or US$ 1.25 per day). Recent studies, including the United Nations Development Program (UNDP 2008), have embraced the concept of multidimensional poverty: which includes income, consumption expenditure, malnutrition, literacy, and other indicators of welfare. Often, a country’s performance in reducing poverty may turn out to be very different depending on whether multidimensional poverty or income poverty headcount ratios are used. For example, while Indonesia’s performance in income poverty reduction between 2000 and 2008 was ranked at the top of the 15 countries studied by Habito (2009), that ranking dropped to fourteenth when the comparison was made using UNDP Human Poverty Index (HPI).

In India, poverty is measured in terms of household per capita consumption expenditure. Poverty lines, determined by the government for each Indian state are updated regularly. The latest poverty lines are based on the recommendations of the Tendulkar Committee Report (2009). At the national level, poverty line for rural population is Rs. 446.68 while for urban population it is Rs. 578.8. Based on these poverty lines, 37.2% of India’s total population was poor in 2004-05. In rural India, poverty was higher (41.8%) than in urban areas (25.7%). The Tendulkar Committee also updated the poverty lines for 1993-94 to allow comparisons to be made between the two periods. On the basis of these figures, it is possible to conclude that poverty headcount ratio for all India declined from 45.3% in 1993-94 to 37.2% in 2004-05. Thus, based on these figures one can safely conclude that growth in India has been pro-poor, as poverty has declined since 1993-94. Not everyone accepts this conclusion, however. The critics question the methodology used in the official estimates and argue that the actual number of poor is significantly higher than the official estimates and that poverty had actually increased between 1993-94 and 2004-05 (e.g., Patnaik 2010, and Mehrotra and Mander 2009).

In a recent study, Habito (2009) has published international comparisons of 15 Asian countries in reducing poverty. For 2000-2008, these comparisons paint a sobering picture of India’s performance in achieving inclusive growth in recent years, because India ranks 11th, followed by Philippines, Mongolia, Singapore and Myanmar. Ahead of India in this league were (in that order) Indonesia, Pakistan, China, Malaysia, Thailand, Vietnam, Sri Lanka, Nepal, Bangladesh and Cambodia. The comparisons are made in terms...
of the poverty elasticity of growth (PEG), which measures percentage reduction in poverty for every one percent of growth in GDP. In Indonesia, Pakistan and China, PEG exceeded one, implying that one percent growth in GDP resulted in more than one percent reduction in poverty. For the other countries that were also ahead of India in this comparison, the values of PEG ranged from -0.806 for Malaysia to -0.469 for Bangladesh. India’s PEG was -0.154, implying only modest reduction in poverty for every one percent increase in GDP. In terms of Figure 1, India’s new growth could be said to have moved from point A in 2000 to point D in 2008, signifying that both the poor and the rich benefitted from growth, but that the rich benefited far more than the poor.

IV. Strategy for More Inclusive Growth

The empirical evidence about the relationship between economic growth and poverty reduction suggests that no particular development model is uniquely pro-poor and that the relationship can only be considered empirically, at the case-by-case level. Nonetheless, it should be possible to draw some general conclusions regarding the major sources of pro-poor growth. The international evidence suggests that the rates of poverty reduction have been helped by rapid growth in agriculture, public expenditure on social services, particularly education and health, infrastructure and the quality of governance. For example, Ravallion (2008) concludes that China’s success would not have been possible without strong state institutions implementing supportive policies and public investments: “China has had a tradition of building and maintaining the administrative capacities of governments at all levels, including the countless villages that were the frontline for implementing the crucial rural reforms that started in the late 1970s.” (p.17). He further adds that promoting agriculture and rural economy is crucial to pro-poor growth, particularly in the early stages, given the potential for small-holder farming to rapidly absorb unskilled labour.” Policies targeting social capital development and market reforms to address institutional and socio-cultural constraints should be adopted. The elements of the proposed strategy and the linkages among the various processes are summarised in Figure 2.

Growth in Agriculture

Recent literature suggests that while sustained economic growth must be a necessary condition for significant poverty reduction, it is not a sufficient condition: sectoral composition of economic growth also matters. Opinions differ, however, on which particular sectors are the sources of more pro-poor growth. Ravallion and Datt (1996) found that because poverty in most developing countries is concentrated in rural areas, growth in the agricultural sector and in the rural economy has been highly beneficial to reduce rural poverty. In another study of China, Ravallion and Chen (2007) found that the impact of the primary sector on head-count poverty reduction is 3.5 times higher than the impact of either the secondary sector or the tertiary sector; poverty reduction elasticity of agriculture is estimated at -7.85 as compared with the elasticity of -2.25 for non-agriculture. Virmani’s study of India (2007) and Topalova (2008) confirm the importance of growth in agriculture for reducing poverty. Suryahadi et al (2009) also find that growth in agriculture has been decisive in reducing poverty in Indonesia.

This literature confirms that growth originating in agriculture generates among the highest benefits for the poorest households and the unskilled workers. Construction industry is the next best source of poverty reduction — also because of its unskilled worker intensity. De Janvry and Sadoulet (2010) find that growth originating in agriculture is nearly three times more poverty reducing than growth originating in manufacturing and nearly double that of growth originat-
Hasan and Quibria (2004) reported, however, that whilst agriculture was the most effective in poverty reduction in South Asia and Sub-Saharan Africa, poverty reduction resulted in East Asia more from the industrial sector and in Latin America from the services sector. Other studies (De Janvry and Sadoulet 2010, Habito 2009) have also added public investment in social services, particularly education and health, and the quality of governance to conditions most likely to reduce poverty.

India’s agricultural sector grew strongly in the wake of the Green Revolution. But, the contribution of agriculture to GDP has been on the decline in recent decades, dropping from 36 percent of GDP in 1980 to about 18 percent in 2007. The deceleration in agriculture has contributed to rural distress in many parts of the country and has affected both large and small farmers. The government of India has developed a strategy of accelerated growth, incorporating a near doubling of the rates of growth of agriculture, during the 11th Five Year Plan (2007-12). If it were to materialise, rapid growth in agriculture should generate more opportunities for the poor to get employment and earn income. Agricultural growth will also generate higher demand for industrial products and assist the budgetary situation of the governments through higher growth of tax revenues, which could then be used to finance various anti-poverty programs.

Literacy is arguably the most significant factor in poverty reduction as it enhances employability

Infrastructure and Energy
Infrastructure continues to occupy central stage in India’s economic development strategies. The problem of energy scarcity is just one of the many infrastructure challenges facing India, as most other forms of infrastructure require substantial expansion and upgrading to meet the increasing demands of economic growth. The pressures on India’s infrastructure are coming from a variety of sources, including rapid expansion of trade, a new priority for higher growth of manufacturing, the rapid pace of urbanisation, the revival and diversification of agriculture and the need to improve conditions of the rural economy.

These pressures are manifested in serious bottlenecks in moving people and goods across the country, and in substantial access to power, drinking water and sanitation for the vast majority of India’s population. India’s infrastructure facilities compare rather unfavourably with several other Asian countries. The 11th Five Year Plan proposes to raise investment in infrastructure to between seven percent and eight percent of GDP by 2012-13. Signalling a break from the traditional approach of keeping the provision of infrastructure within the public sector, the government of India has been keen to involve private sector investment in infrastructure.

The rejuvenation of agriculture noted above will also depend on ample supplies of water for irrigation, exacerbating the severe shortage of water in many parts of India, as well as the environmental risks associated with excessive extraction of underground water for irrigation. These pressures will be additional to those generated by rapid urbanisation for drinking water, sanitation and waste disposal.

Public Expenditure on Education
As noted above, several studies suggest that there is a correlation between inclusive economic growth and the level of public expenditure on social development (including education and health) (e.g., Habito 2009). Literacy is arguably the most significant factor in poverty reduction as it enhances employability. The role played by literacy has been found to be particularly notable by Ravallion and Datt (2002), who reported that nearly two-thirds of the difference between the elasticity of the headcount index of poverty to non-farm output for Bihar (the state with lowest absolute elasticity) and Kerala was attributable to the latter’s substantially higher initial literacy rate.

In 2009, the Right to Education Act
was passed, guaranteeing free and compulsory elementary education to children between six and 14 years old. The 86th Amendment to the Constitution of India makes education a fundamental right. The Act also obliges private schools to admit and educate at least 25 percent of children free of cost. Between 2003 and 2009, the number of enrollees in elementary education has increased from 57 million to 192 million (World Bank 2010). An estimated eight million children, who do not currently attend schools, are expected to benefit from the programme.

Literacy in India (for the age group five years and above) increased from just 18.3 percent in 1951, to 43.6 percent in 1981 and to 65.2 percent in 2005. However, the level of literacy varies significantly across states, genders and rural-urban areas. For example, Kerala has more than 90 percent literacy compared with Bihar at around 50 percent. There are large differences in urban — rural literacy rates in different age groups. It is disturbing, however, to note that literacy rate actually declined between 2001 to 2004-05 particularly in male literacy in most states including Kerala.

Public Expenditure on Healthcare
India’s public expenditure on health care, at 0.9 percent of the GDP, has been low even by developing country standards. The corresponding share is higher in Pakistan (1.0), Bangladesh (1.5), Nepal (1.5) Sri Lanka (1.8), and Bhutan (3.6) (UNDP 2004). India’s public expenditure on health has been not only low, but has declined from 1.05 percent of GDP to 0.91 percent in the same period (GOI 2006c). Thus, the growth in GDP did not translate into corresponding increase in public spending on health. By comparison, public health expenditure in most of the OECD countries averages around five percent of their GDP (WHO 2006). India not only spends less on overall health, but public expenditure favours the rich quintile of the Indian society (NRHM 2006).

Growth of jobs in India depends mostly on the growth of business in the private sector

One consequence of this imbalance is that skilled health personnel attend just 16.4 percent of births among the poorest 20 percent compared with 84.4 percent in the richest 20 percent. Only 35 percent of the population has access to medicines. At this stage of economic growth India needs to consider a new model to extend access to healthcare including medicines to its entire population. Malhotra (forthcoming) provides an equity-based healthcare model, which is affordable, implementable and sustainable. Less than three percent of India’s population has private health insurance. India’s attempts in recent years to provide health insurance for the poor have not been successful. Around 25 percent of the poor do not even seek healthcare because of the costs (World Bank 2002).

A significant factor for the long term planning in healthcare is that Indians are now living substantially longer than a century ago and the population has slowly begun to age. The ageing factor plays a vital role in healthcare planning because the aged people are the major recipients of healthcare delivery. Table 1 shows that the share of the aged population increased 6.5 percent in 1981 to 7.4 percent in 2001, which is estimated to further increase to nine percent in 2016 (GOI 2006). Stark contrasts also exist in other health outcomes, such as infant mortality rate (IMR) and life expectancy. In Kerala for example, life expectancy for males and females is 70 years and 76 years respectively, followed by Punjab at 67.4 years for both. But in states like Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh, life expectancy is in the range of 55-60 years.
Governance Issues

All the above initiatives require a major role of government at all levels in India. Effective government interventions at all levels are crucial to minimise the leakages resulting from sloppy implementation and bureaucratic corruption.

The growth of jobs in India depends mostly on the growth of business in the private sector. A vast majority of Indians are either self-employed or are employed in the unorganised sector. Perceptions of India’s business environment, especially of India’s bureaucracy continue to be unfavourable, and there are many reports of serious delays in getting official approval for business related procedures. One source often used for assessing the quality of business environments in different countries is the Doing Business series of reports published by the World Bank group. According to the International Finance Corporation Report Doing Business 2009 (IFC 2010), India is ranked 182nd of 183 countries in enforcing contracts, 175th in dealing with construction permits, and the second slowest country for closing a business. For starting a business, India’s ranking is 133.

It is worth noting, however, that India is a federal country in which business procedures and bureaucratic performance vary significantly from one state to another. It may be misleading to form an impression on the basis of any single measure that purports to abstract from regional differences, as the above rankings do. This is because some of the states — for example Tamil Nadu, West Bengal, Karnataka and Punjab — have made considerable progress in streamlining their government regulations. On the other hand, states like Bihar, Uttar Pradesh, Madhya Pradesh and Orissa have still a long way to go before being able to attract large scale business investments. And these states are precisely the ones which have a high concentration of India’s poor. These rankings are very low in a country that is aiming to increase business investment and capital inflows from abroad.

V. Conclusion

India’s record of achieving inclusive growth was examined in the context of the experiences of some of the Asian countries. These comparisons show that although India’s growth since 2000 has been beneficial to the poor, India’s achievements are fairly modest relative to the other Asian countries. This calls for a concerted effort to make India’s growth more inclusive in the future. Several measures are outlined to strengthen the sources of inclusive growth. The main thrust of inclusive growth strategies has to be on the following key areas: (i) employment and growth in agriculture; (ii) increased public expenditure on education and health; (iii) improved infrastructure; and (iv) more effective governance at all levels.

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There has been an interesting and mixed evidence of the feasibility of planning process in India. The most prosperous sector of Indian economy in last 20 years has been the software industry, which has mostly unregulated, unplanned, and in a way, unorganized. On the other hand, the regulated and planned sectors such as construction, infrastructure, and legal (law) sector have shown depressingly laggard growth and the unsatisfactory performance. While some years have shown a remarkable growth in these areas, the general feeling is that too much regulation has led to slower progress in construction of highways, supply of utilities such as electricity, water and public sanitation. So, the main question as
the title of this paper suggests, is to find out if the economic planning is really a better way or not. This paper evaluates that question with the help of theoretical arguments for and against the market solutions for economic growth.

Following Todaro (2008), we can define economic planning as the “deliberate act on the part of the government to mobilize resources to achieve the pre-determined specific objectives”. Given this definition, economic planning was adopted in India in 1950 with some basic understanding that this was the only way to make the economy prosper. In sections that follow in this paper, we analyze the feasibility of this planning process with the help of actual results in Indian economy. Section 2 summarizes the history of India’s planning. Section 3 talks about the relative importance of market process and compares it with the planning experience in other countries. Section 4 makes the summary and conclusion.

**History of Indian Planning Process**

In 1951, when the Indian planning process began the immediate need of the economy...
was the agriculture sector which provided 70% of GDP and kept 70% of the population occupied, if not employed, in that sector. Plus the country was coming back from the loss of resources due to the War with Pakistan, the Republic was newly established, and the planning process was dominated by the economic planners (such as Mahalnobis) who were trained in the Keynesian tradition of socialist inclination. Therefore the first plan established three main objectives: rehabilitation of refugees, rapid agricultural development to achieve food self sufficiency and control of inflation. While it succeeded in terms of moderate growth in agriculture sector and reduction in prices, it brought in more enthusiasm to establish even more aggressive targets for Second Five Year Plan (1956-1961).

Assuming that the planning process can now turn its attention to the development of heavy and basic industries, the Second Five year plan had intentions of a Big Push towards the manufacturing sector without losing the sight of agricultural growth. Plus the 1956 expansive Industrial Policy launched by the Nehru Government made it clear that major economic growth will not be possible with out the focus on the heavy and basic industries such as iron, steel, cement, chemicals and fertilizers. Accordingly, the Second Plan aimed at rapid industrialization (Datt-Sundharam, page 270). However, the increased governmental outlay necessarily meant that the country would sway towards socialism. The Industrial Policy of 1956 made it clear that being a “Socialist Economy” is the goal of the Indian economy with no regard to the market clearing process and with little attention to the Neo-classical prescription. This was also the start of more control and ownership by the government sector to increase the bureaucracy, administration and regulation. The impetus received in Second Five Year Plan was crucial in terms of the growth of Indian economy but the growth was not that impressive. This led to even a bigger drive of industrialization with more control and more regulation, higher protectionism and increased leaning towards the socialist economy. The Third Five Year Plan therefore had all these ingredients in its implementation. Unfortunately however, the period of the Third Plan (1961-1966) was beset by Wars with China and Pakistan and a severe drought in majority of the Indian States due to unfriendly monsoon, in 1966.

Due to the changing priorities, and realization that the growth is not even close to the one expected, the first draft of Fourth Plan as prepared by Dr. Ashok Mehta (and his Commission) had to be abandoned. The Planning Process was declared to have three years of “Plan Holidays” to be replaced by Annual Plans from 1966-1969. Fourth Plan period (1969-1974) set before itself two principal objectives, “growth with stability” and “progressive achievement of self reliance”. The Plan also aimed at having a 5.5% growth rate of GDP, and removal of poverty. It realized none of those objectives. Instead the higher inflation, started with OPEC’s oil price increase made the matters worse. The economic situation got even more dramatic, and somewhat depressing, in the Fifth Five Year plan period (1974-1979).

The government faced a major political upheaval leading to the era of emergency, the inflation became a run-away inflation. The main objectives of Fifth Plan were however, a greater income distribution (with the help of heavy taxation) and removal of poverty with attainment of self reliance which also meant more isolation of the economy from international trade. While these objectives now sound to be weird and unattainable, the means to adopt them were even more more dramatic and ruthless. The increase in government interference required to achieve these objective was of a degree that was unsustainable as well as harmful to the every man and woman’s life. The excesses applied to control the population were partly responsible for Indira Gandhi government losing elections in 1977 leading to the abandonment of the Fifth Five Year Plan in 1978 by the Janata Party. This was replaced by Sixth Five Year Plan period (1978-1983) which had two separate and unrelated versions.

“The Janata Party Sixth Plan openly praised the achievements of Planning in India, but held the Nehru model of growth responsible for growing unemployment, for the concentration of economic power in the hands of a few powerful business and industrial families, for widening of inequalities of income and wealth, and for mounting poverty. The Janata Sixth Plan sought to reconcile the objectives of higher production with those...
of greater employment, so that millions of people living below poverty line could benefit there from. The focus of the Janata Sixth Plan was enlargement of the employment potential in agriculture and allied activities, encouragement to household and small industries producing consumer goods for mass consumption and to raise the incomes of the lowest income classes through minimum needs program.” (Datt-Sundharam, page 271) However, the Janata party lost the elections in 1980 and the newly re-elected Indira Gandhi government not only rejected the Janata Sixth Plan, but also replaced it with the one (1980-1985) that had aims of direct attack on the problem of poverty by creating conditions of expanding economy. About this time a reasonable growth in the Indian economy was registered by favorable monsoons and agricultural growth that was pushed harder by the Green Revolution. Hence the Seventh Plan (1985-1990) emphasized policies and programs which could accelerate growth in food grain production, increase employment opportunities and raise productivity. Just about this time there was a drastic change in the economic planners in India. While the failures of the very planned process were somewhat evident and obvious, there appeared the will and readiness to try something new in the international trade area especially about the loss of economic welfare created by heavy protectionism up to that point of time.

Hence the approach of the Eighth Plan was not only different but also was embraced by all the parties that put a claim on the government. In fact the approach to the Eighth Plan was initially approved in September 1989 and the actual plan was to be introduced in April 1990. However changes in the government necessitated constant re-constitution of the Planning Commission. “Finally the fourth version of the Eighth Plan (1992-1997) was approved at a time the country was going through a severe economic crisis caused by a balance of payments crisis, a rising debt burden, ever increasing budget deficits, mounting inflation and recession in the industrial sector” (Datt-Sundharam, page 271). This prompted the government to announce a path-breaking new plan (in June 1991) that involved not only reducing tariff rates substantially but also devaluing the Rupee by approximately by 25%. The Eighth plan also reflected these changes in its attempt to accelerate growth and improve the quality of life of the common man. The subsequent Five Year Plans have been set in the background of the neo-classical arguments of further freeing up of international trade and also more market oriented Indian economy. The regulations, especially for the foreign direct investment have come down substantially. The Information Technology industries and alike have been regulated in a much more friendly way, and the infrastructure investment has been increased, the auto industry as well as the aviation industry is open for freer competition and similar market oriented policies were adopted from 1995 onwards. The results have been stupendous. The economy has progressed in an impressive manner. So, the main question is what went wrong in the strict planning period from 1951 to 1991? Here are some arguments to answer this question:

1) The reduction in poverty was an ambitious project, even for the 1980s era, as 33% of the Indian population still earns less that $1/day: which is an usual measure of counting the poverty. In 1987 Chakravarty pointed out three main failures of Planning Process until then. First, there was a gross inefficiency in production in many of the public sector enterprises. There was no apparent reason why these firms would produce below 50% of their capacity, and why there was such a low level of management practices used in the productions of steel, power, fertilizers, transport etc.

Second, the manufacturing sector has not been as labor intensive as the agricultural sector leading to growth with out employment. This put even more pressure on rising unemployment in India, leading to further inventions on the part of the government to come up with other employment schemes. Third, the planners apparently did not comprehend the logical implications of the big and unachievable goals that could not be fulfilled. They set themselves for a major failure by being over ambitious. While the
low ambition was seen as unpatriotic, the high ambitions were out of the realm of possibility. The planning process, therefore, has become almost meaningless as the economy got used to the high failure rates. The negative externalities of the strong preference to planning process has led to high bureaucracy, increased controls, more licensing, inefficient use of resources, and a dense network of regulation. In economic sense the opportunity cost of the planning in India is a huge burden on the resources. This point is made clearer by the experience of Indian economy from 1991 onwards. As the market process was given more chance to operate, and as the open international trade has made competition from external sectors more plausible, the Indian economy’s performance has improved tremendously. Helped by the freer sector of computer and information technology related companies, the Indian economy has been progressing in an impressive manner ever since it was allowed to be dictated by more market oriented policies. To convince ourselves that the Indian economy’s experience is no exception, we can briefly investigate the evidence form some other economies in the next section. In the meantime, one can easily observe a drastic change in Indian economy’s performance in pre and post 1991 era in the graphs (Graph 1,2,3 & 4).

Experience from Other Countries
Over the past half-century, there existed a movement toward the liberalization of markets in several other centrally planned economies as well as other democratic economies. From Japan, Taiwan, South Korea and Singapore, who experienced average economic growth rates of eight percent during the 1960’s and 1970’s, to China’s economic liberalization in 1978, which was followed by many years of dou-

Performance of Indian Economy Pre and Post 1991

Graph 1. Exports of Goods and Services (% Of GDP)

Graphs 2. GDP Per Capita (Constant 2000 US$)

Graph 3. Trade (% Of GDP)
ble-digit growth, to India’s own economy, which has experienced growth rates as high as 9.8 percent after liberalization reforms in 1991. The data for other countries have consistently suggested that in the developing economies of Asia, the more liberal and market driven economies consistently outperform those of their centrally planned counterparts. The question in this case is why, and to what end?

Albert Waterston studied early development planning in 55 countries, and claimed that “the great majority of countries have failed to realize even modest income and output targets in their plans except for short periods. What is even more disturbing, the situation seems to be worsening instead of improving as countries continue to plan.” (see Waterson in the Bibliography).

This is a glaring example of one of the most obvious problems with development planning; for a planning body, observing and determining the short-run weaknesses and opportunities in a market or economy are not as difficult as possessing the flexibility and responsiveness required to adapt to continuously changing market conditions. Even at its most flexible, the planning body cannot possibly adapt with the same efficiency that a market otherwise could, on its own. The long-run strategy of maximizing economic growth requires the ability to change at the same rate that the factors of production and the demands of consumers change, which can only be optimally performed by the market itself.

With regard to the separation between short-run and long-run growth strategies, it can also be shown that government reaction to short-term weaknesses and opportunities in the economy actually amplify long-term reductions in growth. Assuming that the government is not acting as a player in the market, and not becomes a subject to market prices, then theoretically, government subsidization of the production of a certain good gives incentives for the use of resources to produce that good. Even if the economy in question possesses a relative abundance of the factors required to produce that good, the opportunity costs lay in the sacrificed development that the rest of the economy would have seen had the resources (whether subjective or tangible) not been redirected to the subsidized good. While the production of the good may be in the short-run best interests of the economy, the waste of resources that occurs as a result of their redirection generates less than optimal growth rates in other sectors of the economy. Except in the case of capital intensive production or infrastructure projects, where government facilitation is necessary, the open market directs resources most efficiently, which allows an economy to take advantage of strengths without wastefully appropriating resources.

As it pertains to those economies that have transitioned from central planning to a more market oriented economy, there is no better evidence of the market’s ability to correct for inefficiencies than that which took place in China over the last thirty years. As described by Naughton (1995), the entry of private firms to the market eliminated at least a portion of the price distortions that had been created by state firms producing inefficiently. “Competition eroded initially high profit margins for state firms, and induced the government, as owner of the firms, to become more concerned with profitability.” In this case, the introduction of the “invisible hand” subjected the state-run enterprises to the same forces that are felt in the market and that drive markets toward equilibrium prices and production levels. In this case, the government did not “facilitate” the market,

The planning body cannot possibly adapt with the same efficiency that a market otherwise could on its own.
but instead became a part of it and subject to its demands.

And supposing the state-owned enterprises were subject to the demands of a more liberalized economy, Sachs and Woo (1997) show that even after the “dual-track” process had begun — with both state-owned and non-state sectors in operation — the non-state sectors “account for more than 70 percent of total growth during 1979-94.” This suggests that even when compared side by side, and without the support of a monopolistic pricing model, the state-owned interests still lacked the adaptive abilities required to maintain competitiveness in the long run. Though this may be the result of an actual desire to promote the private interests, the state-owned enterprises made up 18 percent of all employment in China as of 1993 — the same percentage that existed in 1978 — suggesting that this was not the case.

Another example of the correcting capabilities of the market came from Chile. Though a great deal of the political and economic circumstances were different in Chile, their structural market reforms beginning in the mid-1970’s moved them from almost complete isolation in the world economy to one of the higher ranking countries in free-trade policies. Bergoening, Hernando and Repetto (2006) of the Central Bank of Chile show that these liberalization policies allowed for the entry of new participants to domestic industrial production, and showed that at the plant level since 1980, “almost 90% of total growth is explained by efficiency gains.” They go on to explain that while new entrants in the marketplace were not as efficient as incumbent units of production, the new entrants quickly became equally efficient and they replaced those market participants that were not as productive and were forced to exit the market. This conclusion is extremely important because it suggests that under a central planning or state-owned production environment, the less productive plants that would have otherwise been replaced by more efficient firms or perhaps by plants producing substitutes, are instead subsidized to meet the goals of the planning body. Without the supply-side turnover that increases net productivity, the planning body cannot possibly expect to see competitive rates of overall economic growth.

Bergoening, Hernando and Repetto (2006) also examine the role of increased access to external financing on productivity and show, once again, that the interaction between deepened capital markets and productivity is positive, and more so in those industries and firms that are credit constrained. The deepening of credit markets caused an increase in private credit by deposit banks of nearly 40 percent (relative to GDP) and resulted in growth rates over the full sample of industries of 2-2.5 percentage points. This is specifically as a result of increased access to capital that would not have existed if state-imposed restrictions of access to the financial markets were still in place.

This is not to say that all public involvement is bad. Certainly, the establishment and enforcement of property rights and commercial law provide the minimum degree of systemic integrity necessary for market operation, and the public development of infrastructure that supports increases in the mobility of goods, services and ideas can definitively serve as drivers of economic growth. But while government support of these particular necessities may establish the foundation that allows a market to function and develop efficiently, excessive central planning in-
Introduces a variable that places additional (often unnecessary) bounds and limitations on an economy.

Summary and Conclusion
The main conclusion from the above story is that economic planning has rarely been successful. It has not only been unsuccessful, it has been harmful to the economy in terms of channeling resources to inefficient and unproductive productions. It has increased bureaucracy and corruption. It has managed to increase the controls by administrators. On the other hand, market process is not a panacea for very economic problem. It has its limitations because the real growth appears only when the aggregate supply is increased. This is achieved only by better working conditions, innovations, positive technological change, non-destructive policy changes, improved enterprise and the zeal of the population to do better for itself in future. Without these changes the economic growth is unattainable and unsustainable. Hence if markets can make mistakes too the government can make even bigger and more hurtful mistakes and coming back from the increased regulation is much harder than getting into it.

References and Additional Thinking

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Economic development should be serving the well-being of the people and hence economic growth just is a mean for development and not the end which is seen as evident from the development path that high-income nations are following.
The ultimate goal of economic development, its planning and execution, for a nation, is to assure the well-being of people as an output of the process. The priorities of such economic policies which include public policy in different years might shift across various sectors of economy, however ultimately it must culminate into the well-being of people that the nation serves, irrespective of the political mandate. The individuals’ well-being aggregates into the well-being of a nation and through concerted efforts towards this ultimate goal of development the nation gets on the path of being called a happy nation. The alchemy of development, as a process should result in achieving this noble mission of providing an environment where people live in peace, harmony and happiness, where ram-rajya as dreamt by Gandhi prevails.

Simon Kuznets who developed an indicator of GDP, some 80 years back, to measure the economic performance of market economy, might not have thought that this indicator shall become so popular that it would be a deciding factor as to judge the status of economic development of a state/nation. As seen today it became a currency of great weight to determine and distinguish nations on the basis of their respective GDP measure. Unfortunately there has been over-emphasis on the measure of GDP in the policy priorities of almost all the nations irrespective of whether they are first, second or third world nations. It is assumed to be resulting into well-being of people. However it is felt, observed and found that the concentration in improving GDP has not really resulted in improving human well-being. Hence in last few decades efforts have been made to find out alternative measures of development, growth and progress which unlike GDP express the well-being more convincingly. Though United States recognized GDP as an important measure, however Robert Kennedy, a famous senator had mentioned once in 1968 that — Gross National Product counts air pollution and cigarette advertising, and … the destruction of the redwood and the loss of our natural wonder in chaotic sprawl… Yet [it] does not allow for the health of our children, the quality of their education, or the joy of their play… the beauty of our poetry or the strength of our marriages… it measures everything, in short, except that which makes life worthwhile. This statement which came more than 40 years back defends the case of human well-being through the development philosophy followed in India’s neighboring nation, Bhutan.

Bhutan which was a tiny Kingdom before it adopted democratic system has been practicing a development philosophy based on the premise of well-being of people, which is termed as Gross National Happiness (GNH). It was towards the early months of 2008 when this tiny kingdom became the youngest member of the club of parliamentary democracies. It is more than 35 years since Bhutan started sharing its concern for the welfare of people through its focus on GNH. There have been constant efforts to popularize the concept and advocate on the importance of happiness in the policy framework. Wikipedia included this term and defines it as an attempt to define quality of life in more holistic and psychological terms than Gross National Product. As mentioned in one of its national human development reports, the pursuit of GNH calls for a multi-dimensional approach to development that seeks to maintain harmony and balance between economic forces, environmental preservation, cultural and spiritual values and good governance. These four priorities are termed as four pillars of GNH. There have been discussions and debates on the measurement of GNH and in last few years this initiatives in order to defend the agenda of human well-being through the development philosophy followed in India’s neighboring nation, Shillong.
small nation has developed a set of variables which are in the form of a matrix of nine domains spread over 72 indicators covering psychological well-being, time use, and living standards.

The interest in the happiness literature has arisen from the fact that as the nations are becoming economically developed, richer and independent, the problems as to work and family stress, discrimination, crime, depression, environmental imbalance, social alienations, etc., are also becoming more common and frequent. States’

**It is precisely the reason why the focus of GDP is getting reduced and the social progress is getting focused**

public policy is initiated on the basic premise of improving quality of life of its citizens, instead of resulting in this; it is seen as happening the other way. This is thought to be a reason for thinking beyond economic indicators and to further rethink on the policy framework and rework on priorities in order to let the citizens feel happy through improving their well-being. Economic development should be serving the well-being of the people and hence economic growth just is a mean for development and not the end which is seen as evident from the development path that high-income nations are following.

The study done by Takayoshi on comparing GNH and material welfare in Japan and Bhutan, on behalf of Centre for Bhutan Studies traces the insight into the commonalities and differences. Health, finance and family are some of the common indicators of well-being as perceived by the people of both the countries. Japan is way ahead of Bhutan so far as GDP and HDI are concerned however when it comes to Happy Planet Index (*developed by New Economic Forum, UK*) or Happiness Index (*developed by Adrian White of Leicester University, UK*) Bhutan is far ahead of many of the developed nations including Japan, and developing nations. It is precisely the reason why the focus of GDP is getting reduced and the social progress or well-being is getting focused.

Joseph Stiglitz, a Nobel laureate in economics, visited Bhutan and addressed the policy makers, bureaucrats and development agents. The focus in his address was the shifting from GDP to Well-being as critically argued in a Report by the Commission on the Measurement of Economic Performance and Social Progress of which he was the chair. This commission was initiated by the President of the French Republic, Nicholas Sarkozy in February 2008 when he felt unsatisfied with the state of statistical information about the economy and the society. He asked Joseph Stiglitz to be the President of the Commission of which Amartya Sen was appointed as Advisor and Jean Paul Fitoussi as Coordinator. The mandate of the commission was to identify the limits of GDP as an indicator of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress; to assess the feasibility of alternative measurement tools, and to discuss how to present the statistical information in an appropriate way. The members conducted research on social capital, happiness, and health and mental well-being.

The report which is also named as Sarkozy report, makes a strong case that the time is ripe for our measurement system to shift emphasis from measuring economic production to measuring people’s well-being. Further it is also suggested that the measures of well-being should be put in a context of sustainability. The commission gives five recommendations apart from looking at the well-being spectrum. The five recommendations are:

i. when evaluating material well-being, look at income and consumption rather than production,

ii. emphasise the household perspective,

iii. consider income and consumption jointly with wealth,

iv. give more prominence to the distribution of income, consumption and wealth, and

v. broaden income measures to non-market activities.

GDP as a measure has also been under criticism by many including Easterlin who developed a paradox popularly known as Easterlin Paradox. He argued that life satisfaction does rise with average incomes but only up to a point and beyond that the marginal gain in happiness declines. In this light, the concentration needs to be relooked from the point-of-view of personal as well as subjective well-being. Easterlin paradox came much before Sarkozy report, similarly the New Economic Foundation (*NEF was awarded the International Society for Quality-of-Life Studies’ Award for the Betterment of the Human Condition 2007, in recognition of their work on the Happy Planet Index*), started developing HPI looking at life satisfaction, life expectancy and ecological footprints. Apart from the HPI the NEF also develops National accounts of well-being which includes the measures of personal, social and emotional wellbeing.

Material living standards (*income, con-
sumption and wealth), health, education, personal activities including work, political voice and governance, social connections and relationships, environment (present and future conditions), insecurity, of an economic as well as a physical nature are the concerns for well-being given in the Sarkozy report which strongly suggests that objective as well as subjective dimensions of wellbeing are important.

It was around 20 years back that a measure called Human Development Index (HDI) was developed which was then a very radical concept, but slowly became one of the prominent indicator to measure the status of human development, through the initiatives of United Nation. HDI takes into account life expectancy, literacy (education) and gross national income which is a composite index. These three variables reflected health, education and standard of living, which became an accepted composite indicator of human development. However there were still some subjective measures which were left but thought to be important for the human well-being, like cultural values, time use, leisure activity, relationships etc.

There have been many government as well as agency initiatives at different levels to search for measures of human well-being. Genuine Progress Indicator for Atlantic (GPIAtlantic), Canada was founded in 1997 as an independent, non-profit research and education organization which is involved in developing GPI as a measure of sustainability, wellbeing and quality of life. Atkinson Charitable Foundation took the initiative to measure the economic, health, social and environmental well-being of Canadians in 1999 and through its wing called Canadian Research Advisory Group brought out its first report Canadian Index of Well-being (CIW) in 2009. The CIW was to have eight domains as democratic engagement, living standards, healthy populations, time use, leisure and culture, community vitality, education and environment, however on environment the report is still to get through. Alex Michalos, while presenting CIW, mentioned ‘The economists messed everything up, the main barrier to getting progress has been that statistical agencies around the world are run by economists and statisticians and they are not people who are comfortable with human beings. The fundamental national measure they employ tells us a good deal about the economy but almost nothing about the specific things in our lives that really matter’.

Derek Curtis Bok, former president of Harvard University, brought out a book in the last year in the title of ‘The Politics of Happiness — what government can learn from the new research on well-being’. On the basis of the researches done all across the world, this book makes a strong case for getting the policy makers to prioritise well-being over excessive focus on the market economy viz-a-viz GDP. The focus has to be shifted from market (GDP) to people (Human Well-being) as is the case in Bhutan. More than input-output the outcome has to be seen and if possible, valued. The time and resources spent on identifying and measuring indicators and concentrating on improving the indicators rather than improving the outcome of the policies has to be judiciously decided. The nation is spending its fortune on the welfare schemes for the underprivileged class; however the outcome is not getting due to inherent problems of faulty implementation and huge rise in the incidence of corruption.

Are we ready for shifting our focus towards well-being from every sense of the term rather than trying it out through the window of economic parameters? What JM Keynes once stated — The difficulty lies not so much in developing new ideas as in escaping from old ones, has to be taken seriously by putting efforts to escape from the clutches of economic indicators, and to look for a more appropriate alternative which is more based on outcomes than outputs and beyond market economy, reflects more on human well-being. The alchemy of development must churn out a strategy to lead a policy for satisfying the needs and aspirations of people so that their better human well-being is assured.

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Ecology and Tribal Society in Arunachal Pradesh

Tribes are in many cases are used as a kind of toys almost every regimes and their land as a kind of enjoyment and place of entertainment.

It has been simply understood that ecology and tribal society have a very core relationship. Tribalism only sustain if ecology sustain. Displacement of tribals in various parts of this universe took place only when disturbances brought in the ecological system in the particular tribal settled areas. No tribal can survive without their engagement in forest, rivers, mountains, animals and over all ecological system. Tribals feel more comfortable when they live with their eco-system. On the other hand, it is also true to say that every society needs to change according to change of the universe and nature but that changes should not be on the cost of life and livelihood. We have a long history within India and through out this world that once any disturbances took place a mass tribal displacement took place inbound or outbound. In the name of development and better life tribals sacrificed more then any other ethnic groups in this universe.

According to the 2001 Census, the total population of the Scheduled Tribes (STs) in India is 84,326,240 persons, constituting 8.2 percent of the total population of the country. 91.7 percent of them lives in rural areas, whereas, only 8.3 percent inhabit in urban areas. Madhya Pradesh accounts for the highest percentage of STs population to total STs population of the country (14.5 percent) followed by Maharashtra (10.2 percent), Orissa (9.7 percent), Gujarat (8.9 percent), Rajasthan (8.4 percent), Jharkhand (8.4 percent) and Chhattisgarh (7.8 percent). In fact, 68 percent of the country’s STs population lives in these seven States only. The proportion of the STs to the total population of the States/Union territories
is highest in Mizoram (94.5 percent) and Lakshadweep (94.5 percent) followed by Nagaland (89.1 percent), Meghalaya (85.9 percent). Within the major states Chhattisgarh (31.8 percent) has the highest percentage of STs population followed by Jharkhand (26.3 percent) and Orissa (22.1 percent). These proportions are in the lowest in Uttar Pradesh (0.1 percent), Bihar (0.9 percent), Tamil Nadu (1.0 percent) and Kerala (1.1 percent). As per the 2001 Census, there are 75 districts where STs population is 50 percent or more. In majority of the districts (i.e., 403 districts), the concentration of STs population to its total population is less than 20 percent.

Coming to Arunachal Pradesh the state known for its large area with more then 26 major (70 percent) tribes is in huge threat due to the construction of big dams. Entire state is divided into big and small dams. Small dams are little difficult to count but five big dams one can count which is to be constructed on the river Kameng River Basin, Subansiri River Basin, Siang River Basin, Dibang River Basin and Lohit River Basin. Government of India calculated to produce more then 50,000 megawatt hydro electricity which would be the world’s largest project ever been seen and produced. This power not only gives electricity for twenty four hours to India rather it would be sent to South Asia and South-east Asia. It is really a matter of great pride for the Government of India but this is only possible by displacing large section of tribes. Tribes are in many cases are used as a kind of toys almost every regimes. They used these tribes and their land as a kind of their enjoyment and place of entertainment.

Arunachal Pradesh is bestowed with huge hydroelectric potential and is speculated to become the ‘Power House’ of the country if this hydroelectric potential is tapped. The identified hydroelectric capacity in respect of Arunachal Pradesh as per re-assessment study as on 30-04-2006 comes to 50,328 MW and so far only about 0.8 percent of this capacity has been tapped owing to the difficult geographical terrain and inaccessibility of possible project sites. In a landmark move towards making this state Power House of India, the State Government on 21st September, entered into Memorandum of Agreement (MoA) with CPSU power giants viz., N.H.P.C Ltd., N.T.P.C Ltd. and NEEPCO Ltd., for harnessing 10,230 MW of hydroelectricity capacity out of the CEA estimated hydroelectricity capacity of 50,238 MW. These power giants would pump in around Rs. 42,242.66/-Crs. (estimated project cost) to harness this 10,230 MW of hydro power. Listed below are projects for which MoA has been entered into;

I. Tawang – I Hydro Electric Project
   i. Installed Capacity: 750 MW
   ii. Annual Energy Generation (in MU): 3156.10
   iii. Location: Tawang District
   iv. Implementing Agency: National Hydroelectric Power Corporation Limited (N.H.P.C)
   v. Basis of Funding: BOO (Build, Own and Operate)

II. Tawang – II Hydro Electric Project
   i. Installed Capacity: 750 MW
   ii. Annual Energy Generation (in MU): 3480.40
   iii. Location: Tawang District
   iv. Implementing Agency: N.H.P.C
   v. Basis of Funding: A Joint venture between Government of Arunachal Pradesh and NHPC Ltd.

III. Dibang Multipurpose Project
   i. Installed Capacity: 3000 MW
   ii. Annual Energy Generation (in MU): 12270
   iii. Location: Lower Dibang Valley District
   iv. Implementing Agency: NHPC Ltd.
   v. Basis of Funding: A Joint venture between Government of Arunachal Pradesh and NHPC Ltd.

IV. Kameng – I (Bharali – I) Hydroelectric Project
   i. Installed Capacity: 1120 MW
   ii. Annual Energy Generation (in MU): 3480.40
   iii. Location: Lower Dibang Valley District
   iv. Implementing Agency: NHPC Ltd.
   v. Basis of Funding: A Joint venture between Government of Arunachal Pradesh and NHPC Ltd.
MU): 4112.40
iii. Location: East Kameng District
iv. Implementing Agency: North Eastern Electric Power Corporation Ltd. (NEEPCO)
v. Basis of Funding: BOO (Build, Own and Operate)

V. Pare Hydroelectric Project
i. Installed Capacity: 110 MW
ii. Annual Energy Generation (in MU): 491.74
iii. Location: Papum Pare District
iv. Implementing Agency: NEEPCO
v. Basis of Funding: BOO (Build, Own and Operate)

VI. Etalin Hydro Electric Project
i. Installed Capacity: 4000 MW
ii. Annual Energy Generation (in MU): 16071.60
iii. Location: Dibang Valley District
iv. Implementing Agency: National Thermal Power Corporation Ltd. (NTPC)
v. Basis of Funding: BOO (Build, Own and Operate)

VII. Atunli Hydro Electric Project
i. Installed Capacity: 500 MW
ii. Annual Energy Generation (in MU): 2247.32
iii. Location: Dibang Valley District
iv. Implementing Agency: NTPC
v. Basis of Funding: BOO (Build, Own and Operate)

These Hydroelectric Projects would be constructed taking all the environmental safeguards in accordance with the conditions of Ministry of Environment and Forests besides making additional investments by way of Catchment Area Treatment (CAT) etc. for control of soil erosion as declared by the Ministry of Power in a press release on 22-09-2006. The main highlight of the MoA was the creation of Local Area Development Trust (LADT) to take up development activities for the people of affected areas. Besides, 12 percent of free power the state will accrue from these projects, the projects would contribute one paisa per unit of electricity generated to the trust (LADT).

In recent time, companies like ‘reliance power’ and ‘jaypee groups’ had offered to build the dams in Arunachal Pradesh for 19 percent free power to the state. Not only that, they agreed to handover the dams to Arunachal Pradesh after 55 years of their business. With only 12 percent free power and giving up the dams to NHPC/NTPC for as long as they stand, Arunachal Pradesh is losing a lot. Only people who gain from the deal are NHPC and the Arunachal Pradesh authorities who have consumed commission not to think too much. Here I guess the question is not of free power because the term free is a misnomer itself. It is actually the right of the state-water being state subject and handing the project back to the state government after 55 years is really a kind of joke which creates question like what would be the life of a hydro power projects? As per NHPC’s official assumption for life of a Dam is 99 years. Other companies in India too must have assumed the life expectancy of a dam near NHPC’s. So in case the dam is handed over to Arunachal Pradesh after 55 years, state has at least 44 years of dam’s life to utilize. Even if after 55 years state doesn’t have a qualified department to manage a constructed dam, we can still hire some other companies to do so.

Since 2001, when the project only had permission to conduct survey and investigations, NHPC has repeatedly committed serious violations of both the Forest (Conservation) Act, 1980, and the Environment Impact Assessment notification, 1994. In
2001, both the Assam Government and the regional office to the Ministry of Environment & Forests (MoEF) have brought up this issue with NHPC and the Government of India. Some of the offences have been committed over three years before the project had the necessary clearances. Violations include extensive collection of boulders, stone, gravel, sand and earth from the left bank of river, obstruction of an elephant corridor with fencing in the Subansiri RF, dumping of muck and debris in the river. Citizens who attended the public hearing at Gerukamukh on September 4, 2001, also highlighted the illegal construction, which was on in full swing before the grant of clearances. Although the MoEF took a strong stand in the early stages (2001 and 2002), it has subsequently been quiet on the issue, although violations have been brought to there notice.

Social organizations like the Krishak Mukti Sangram Samiti (KMSS) recently set a seven-day deadline for the Assam’s Tarun Gogoi government to ensure a halt to the construction of big dams affecting the state or face a mass movement akin to the Assam Agitation from November 1. The organisation, which has been opposing the construction of large dams in the region, did not spare Arunachal Pradesh either. It threatened to launch an economic blockade against the neighbouring state if it did not give up its pro-dam policy. They are mainly opposing because due to the construction of dams in Arunachal Pradesh the agriculture in districts like Lakhimpur, Baksa and Barpeta has been severely affected because of the Ranganadi, Kopili, Karbi-Langpi and other hydro power projects. These projects create floods in the districts and led to massive siltation on agricultural lands.

The Arunachal Pradesh Government’s failure to implement some key recommendations made in a World Bank report has led to the controversy over dams.

The comprehensive had recommended maintaining high level of transparency (public access to draft plans and data) and consultation with stakeholders (such as communities affected by floods and erosion on tributaries), which was never followed in true spirit when the Arunachal Pradesh Government signed memoranda of understanding and memoranda of association with several power generation companies, including some large private players. As a result of that, there has been widespread apprehension and protests against the possible disastrous impact in the downstream areas in Assam because of the construction of these dams in Arunachal Pradesh, which has put the two states on a collision course.

The report of the World Bank study, titled Study on Natural Resources, Water and the Environment Nexus for Development and Growth in North East India, was submitted to the Centre in 2008. The study was conducted at the initiative of Prime Minister Manmohan Singh. The study has strongly advocated cooperation among the northeastern states for river management to control flood and erosion and to harness hydropower potential but that does not seem to be happening with Assam and Arunachal expressing contradictory views on this issue.

Moreover, the upcoming projects in Arunachal are solely for power generation and not for flood moderation. To ensure better coordination among the states, the study also recommended setting up of a “new river basin management institution” with regulatory powers that would work across the entire North-east and for many decisions, other stakeholders, for example communities affected by floods or erosion on tributaries, should be included. The proposed North East Water Resources Authority (NEWRA) which could have functioned as the river basin management institution as suggested in the report, could not be constituted as yet since...
Arunachal refused to give its consent. Barr- ing Arunachal Pradesh, all the states of the region have agreed to the Centre’s proposal to set up the authority which was modelled on the lines of the Tennessee Valley Authority in the US. The Arunachal Pradesh Government has already signed MoUs and MoAs for construction of 100-odd hydro-projects with a total capacity of around 50,000 MW with different power generation companies. The World Bank study says that international experience in past decades has shown that it is generally advisable to separate construction from other functions (like impact on downstream areas and upper reaches, environment, ecology, effect on livelihood, etc.), since the power generation companies easily get drawn into construction and neglect other vital issues.

The anti-dam pressure group KMSS sent a memorandum to Prime Minister Manmo- hant Singh to stop construction of mega dams in the Northeast, particularly in Arunachal Pradesh. The memorandum carried signatures of 1.13 lakh people from a cross-section of society supporting the Samiti’s stand. KMSS leader’s also asked both Dispur and Delhi to consider today’s memo- randum as the “last and final” warning. The Planning Commission has convened a meeting on hydroelectric projects in New Delhi on November 9 to discuss the issue, which has not mentioned it in its letter to Dispur. KMSS submitted several memorandums to the government on sent memorandum to the Prime Minister and UPA chairperson Sonia Gandhi, Union minister for environment and forests Jairam Ramesh and Union power minister Sushil Kumar Shinde about the issue related to the construction of dams and its effect on ecology. The Samiti also protested from the Nabagraha area in the city to Cotton College in Panbazar and held a meeting there. In that various civil society organisations and prominent intellectuals of the state participated in the meeting to endorse the views of the KMSS over the construction of mega dams.

Over all KMSS demanding that the Prime Minister withdraw the clearances granted without downstream impact assessment and public consent to the 2,000 MW Lower Subansiri project, 1,750 MW Demwe Lower and 1,500 MW Tipaimukh projects. The memorandum demanded the Prime Minister to commission a spe- cial study group comprising independent reviewers, scientists, social scientists and peoples’ representatives to study the environmental and social impact of all the existing dams in Assam, Arunachal Pradesh and Bhutan. It also demanded that the Brahmaputra and its tributaries be protected as cultural and ecological endowments of the people of the region and country as a whole. In a related de- velopment, a high-level NHPC team called on by the chief secretary N.K. Das to discuss the concerns of Assam vis-à-vis the downstream impact of the dam.

The Arunachal Pradesh Government is very much active these days to get all the projects cleared by the Central Government. Chief Minister Dorjee Khandu is writing letters frequently to the Ministry of Environment and Forest (MoEF) and the Prime Minister’s Office (PMO) pleading for urgent steps to clear the projects expedi- tiously in the ‘larger interest of nation’. In his October 11 letter to the MoEF, the

The Govt has signed MoUs and MoAs for construction of 100-odd hydro-projects with a total capacity of 50,000 MW

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Arunachal Pradesh Chief Minister argued that all major rivers of Arunachal Pradesh originate in China and flow to India. The Chinese South to North Water Diversion (SNWD) Project has led to the speculation that China can divert the Yarlong/Siang before it enters India. Therefore, he pleaded that speedy implementation of hydroelectric power projects on the rivers like the Siang, Subansiri, Lohit, etc., was of strategic importance to establish India’s first user rights. It is needless to mention that any undue delay in statutory clearances will affect the nation’s interest adversely. He also informed the MoEF that his Government had targeted to start implementation of the hydroelectric power projects with the total capacity of 15,000 MW, by December 2017.

An expert committee set up to study the big dams in Arunachal Pradesh prescribed construction of a small dam instead of the 2000 MW hydel dam at Lower Subansiri in Arunachal Pradesh. This was what the panel members said as they were interacting with local people at Gogamukh after visiting the Lower Subansiri dam project at Gerukamukh. The experts were of the opinion that a small dam was feasible in the area. They said sand structure, seismic and earthquake report allows no dam of 2000 MW capacity but have suggested a small dam. According to these experts, the dam will not contain flood as it was not a run of the river project and that the model of the mega dam for lower Subansiri had to be changed. Notably, Assam Chief Minister Tarun Gogoi has favoured big dam citing the expert panel report on effects of dams in the state. Tarun Gogoi has written to Prime Minister Manmohan Singh asking for a review of the over 100 dams planned in Arunachal Pradesh and a comprehensive assessment of their impact downstream on Assam. Gogoi warned that the 100 plus dams in Arunachal Pradesh would lead to flash floods in the downstream areas of Assam when there is sudden and excessive discharge of waters after heavy rainfall. His letter to the PM comes after environment minister Jairam Ramesh wrote to the PM alerting him to the dangers of the Arunachal dams. Following this, Arunachal Pradesh CM Dorjee Khandu had written to the PM in favour of the dams. The PM has twice cancelled meetings of a group of ministers on the issue as a reaction to Ramesh’s letter and Khandu met the environment minister after that. Using the “downstream effects” logic, Gogoi’s letter also asked for a greater share of the 12 percent free power from the projects that is given to the states.

**Conclusion**

The economically exploitable hydropower potential in India through medium and major schemes has been assessed at 84,044 MW at 60 percent load factor — that is about 148,000 MW installed capacity. The North and Northeastern regions contain the lion’s share of this, with 54,000 and 59,000 MW respectively. Nearly all of this (93 percent) is yet undeveloped capacity, but this potential is also highly concentrated, with 50,000 MW located in Arunachal Pradesh. Large dam construction and the hydroelectric power project in Arunachal Pradesh is really the biggest blunder and ironically enough while most of the debates regarding the project surround concerns about floods, environment, ecology, forests, livelihoods and culture. The biggest point of concern has not even been taken into account, and that is the high seismic activity in the region. Though the entire northeast India is seismically a high risk zone, that particular corner of Arunachal Pradesh is in fact among the topmost areas of earthquake vulnerability in the world. The districts of Upper Siang, Dibang valley and Lohit valley are literally ‘red alert’ areas for such mega projects.

The State Government had plotted politics at the backyard of the public in making bidding by taking money from the companies in grant with their knowledge. There is a great concern over the compensation and public are really sceptical about it. Central Government hardly bothers about what is happening in the parts of Northeast. Taking all these into consideration, one would obviously be sceptical, frustrated and thus no question could be let for Dam building in Arunachal Pradesh to be perceived as a positive initiative or as a sign of a vibrant Indian democracy. Public view is that the money generated by hydro power would be pumped to New Delhi in crores depriving them of real opportunities to improve their standard of life. Despite all this, people have started urging for minor dams but not the mega dam as Arunachal Pradesh is ecologically sensitive. The Environmental Impact Assessment is merely a formality, otherwise democracy does not allow any
who planned their state as the land of survival. Entire Arunachal Pradesh is being divided into dams which almost going to effect all the tribal settlements and lost of livelihood. Development needed but maximum benefit should go to the people who are the part of it so that their survival and livelihood chances may increase in place of destroying.

End-notes and Additional Thinking


2 Writ Petition (Civil) No. 337 of 1995, Centre for Environmental Law, WWF-India vs. Union of India & Ors., hereafter referred to as the WWF case. In August 1997, the SC ruled that no de-notifications could take place without the IBWL's opinion. But several states continued deleting portions of protected areas under the pretext of the settlement of rights process. In response, the SC ruled in November 2000 that “pending further orders, no de-reservation of forests/sanctuaries/national parks shall be effected”. Subsequently state governments have had to go to the SC with proposals for deletions from PAs and the opinion of the IBWL is being sought on these proposals. The SC has further passed orders in 2002 that “no permission under section 29 of the Wildlife Act should be granted without getting approval of the Standing Committee (of the IBWL)”. Importantly, this approval is required irrespective of whether the area will be de-notified eventually or remain part of the protected area. It is an approval for the use of section 29.

3 The Telegraph, 21st October 2010.
4 The Telegraph, 28th October 2010.
6 The Telegraph, 3rd November 2010.
7 Assam Tribune, 26th October 2010.
8 Assam Times, 25th October 2010.
9 Times of India, 5th November 2010.

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The views expressed in the write-up are personal and do not reflect the official policy or position of the organization.)
Taxes, Policies, and the Economics of Frederic Bastiat

The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.

Taxes are part of fiscal policies initiated by the State as part of its governing activities. Taxes are not new to the world of economy and have been there for a long time now initiated as these are by the various forms of State that have been ruling societies. Taxation as part of State policies have not been restricted to the emergence of the modern state as has evolved over the last few centuries albeit it is in this form that interest us here. Taxes are characterized by their ubiquity.

It is not surprising, therefore, that these formats as policy outputs of the State have attracted attention of those who have reviewed them to arrive at their contents and their rationale in terms of applicability to the given society at the time these were introduced. In one aspect taxes retain a specific quality that has not changed over the many years that these have been imposed. Taxes continue to remain as the parting of moneys from the citizenry to the state. The format has evoked comments that have included viewing the impact essentially restricted to the event related to payment of taxes, and probably made evidently famous by Benjamin Franklin who observed that taxes and death are the only two certainties in the life of a citizen. Franklin did, however, give the primacy of place to death. If these views became famous for their succinctness, there were others that came to be justly noted for their elaborateness. These included responses from commentators who viewed the process of taxation in its entirety and included in
their observations much more than pithy observations. In a manner of speaking, such views were advanced to lay down an understanding of the cycle that included the methods of the State, actions by the State, implications for the citizenry, responses of the people, and responses of the State. The views extended by these commentators were certainly holistic. These outputs are not historical footnotes on the holistic status, and not on the short picture concerned as it is only when the concern is about immediate consequences. It is interesting to note that while Bastiat has been seen by some as an economic journalist and not as a theoretician, and hence as one who would be associated with the short picture, there are others who quiet steadfastly decline this as the due expression.

**It was Schumpeter who in his History of Economic Analysis did raise the issue of Bastiat as an economic theorist**

confined to certain points in time alone; there are lessons to be learnt from them by statesmen, the bureaucracy, and citizens. That remains so, for while times have changed from then to now the constancy of taxes have not. Taxes, however, are not independent artifacts; they are clearly a part of the political economy of the land, and are enmeshed with economic policies that are part of this economy. To get a picture of the way tax interventions originate and work out as measures, these have to be viewed as but a part of the economic system.

**Frederic Bastiat — Arriving at a Format to View Matters Economic in Society**

One commentator on matters economic, and which included the issue of taxes, was Claude Frederic Bastiat, a Frenchman of the early nineteenth century. He is relevant here for he stepped out to make his comments and studies available in the format that was referred to earlier; he specified that it requires the inclusion of the ‘full picture’ to arrive at economic policy decisions. The emphasis, then, was Bastiat wrote for the French Journal *Journal des Economistes*, an academic journal on political economy that started being published from 1841 and continued well up to the Second World War when its publication was stopped by the invading army. The Journal had published contributions by Leon Walrus and Vilfredo Pareto, economists who continue to remain well known and well read till date. It was Schumpeter who in his History of Economic Analysis did raise the issue of Bastiat as an economic theorist, and wrote that, ‘I do not hold that Bastiat was a bad theorist. I hold that he was no theorist.’ Hazlitt, however, contends that this is not a true assessment of the contributions of the man who was, ‘an economic pamphleteer, the greatest exposé of economic fallacies’. To counter the observation of Schumpeter, Hazlitt draws out the formers observations about Economic Harmonies, the book that Bastiat wrote. Schumpeter readily agreed that had Bastiat not written the book, ‘his name might have gone down to posterity as the most brilliant economic journalist who ever lived.’ Hazlitt quiet clearly has his views the support of Hayek who wrote that, ‘One might even grant Schumpeter’s harsh assessment of Bastiat that “he was not a theorist” without seriously diminishing his stature.’ We might as well agree with these effective assessments of the man who crafted the pamphlet into a document that had the barb and the wit when it brought out in open matters that were economic in content and public in value. If the understanding of such matters were connected with the practical wisdom that is gained from a life associated as such, Bastiat did undergo such experiences. His was a short life, and in this compressed tenure it was only during the last decade and half of his life that the writer on matters economic communicated to his readers his analysis of such matters.

Bastiat was born in 1801 in Bayonne, a provincial town in southwestern France close to the border with Spain. Orphaned at an early age, Bastiat left school at the age of seventeen to work in the business that his family was involved in. It is while working in the exports business that Bastiat came into learning first hand the impact protectionism had on trade between nations. It is the experience of negative aspects recorded in states of decline in trade, empty warehouses that were a fall out of such declines, increase in unemployment and in poverty, and downward trends in city population, that DiLorenzo points out were the lessons the young Bastiat learnt of misdirected trade policies aimed at upholding protectionism. Bastiat wrote about this in his later life when he opted for a change in life activities. He came to acquire an estate that his grandfather looked after at Mugron, some distance away from Bayonne. Bastiat moved on to become a
A scholar with an interest in matters economic and the politics of the day. It helped that France had an established school of scholars who had written about the relevance of agriculture as a provider of the wealth of a nation. The economic theory that this group of writers aggregated under the Physiocracy school predated the classical era that started with Adam Smith. The Tableau économique, published in 1758 was authored by François Quesnay and was a structured format of the manner in which the agrarian economy was looked at. The influence could be there, for Bastiat formulated his approach to agriculture and attempted to implement scientific agrarian methods among farm land owners at Mugron. After all, the Tableau économique was instructive about distribution of the produce of the land among people, and it also served a lesson that prompted increase in the produce too. The steps did not quiet yield the results that were targeted and Bastiat made recourse back to that which he favoured most. It was to be a quiet life of scholastic activities for the young man of twenty five. The lessons that the physiocrats provided were not, however, forgotten and their influence can be considered to have been of value to the young scholar.

At the age of nineteen, two years after he had left his school to enter a trade, Bastiat had expressed his ambition as a scholar and what would he look forward to. He wanted to be fully conversant with ‘nothing less than to become acquainted with politics, history, geography, mathematics, mechanics, natural history, botany, and four or five languages.’ The newly settled gentleman farmer looking after the estate left behind by his grandfather had, not many years later, the chance of becoming one. Bastiat wrote, and contributed to publication, his observations about the political economy. A number of major events of the time had set into motion the expression of people of the land asking for change. The Revolution of 1789 was a cause that brought in changes of significant magnitude. The coming of the French First Republic from 1792 to 1804, the succeeding Napoleon years, the July Revolution of 1830, the February Revolution of 1848, and the installation of the French Second Republic in 1848 were peak level events that did bring in notable turmoil, dissensions between classes, unemployment, food riots, and uproar for political power and representation in the society of the day. Bastiat was a witness to most of these except for the Revolution of 1789, and so impacting were the effect of events of that period that no person with interests of the type that Bastiat had would be immune to the effects. It was not just the changes that were happening in France that would have an impact. The growing interaction between nations effectively meant inclusion in terms of reckoning of...
all that which was happening elsewhere into the framework of current concern too. Bastiat struck a friendship with Richard Cobden who spearheaded the Anti-Corn League set up in 1836 in London. The purpose of the League was to nullify the import tariffs placed by the Corn Law in 1815 on import of corn to United Kingdom and Ireland. Richard Cobden was a supporter of non-protectionist policies, an area of concern that had influenced Bastiat from his Bayonne days. It was a dedicated study of the impact of protectionism policies followed by the two countries France and Britain on their respective countries that Bastiat followed with great interest. The rapidly gathering influence of Cobden in the Manchester political establishment meant that Cobden was heard, and more so that his stand on tariffs and protectionism were debated about. Bastiat, then an unknown author, sent his notes on ‘The Influence of French and English Tariffs on the Future of the Two Peoples’ for publication to the Journal des Économistes.9,10 Roche11 points out that the ‘editors examined this article by an unknown author from the provinces and realized that they had discovered a brilliant new economic thinker with a fresh analysis of the problems plaguing French society.’ The article was published in October 1844, and the writer who found it difficult till then to come across a publisher for his writings found ready publishers and readers. The first volume of essays was released in 1845 under the name Economic Sophisms. This was followed by Economic Harmonies in 1850 and this volume contained his approach to the area of political economy. There were other works of import, and these include the text The Law (1850), Cobden and the League (1845), and Capital and Rent (1849).

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It was not that Bastiat did not find detractors who viewed it as a measure of complaint against someone who agreed with the approach of an Englishman as regards protectionism and who also alluded thereby to the pro-English opinion in the process. This during a period of hostility between the two nations was not an easy force to reckon with. Roche points out that those detractors not only fuelled the charge that the adoption of ideas proposed by Bastiat would lead to ‘unemployment and starvation for the working classes’, they also went to the extent where ‘Every half-truth and non-truth imaginable was trotted out by opponents of free trade.’12 The response of Bastiat was to offer the written word with simplicity of style that could render the thought comprehensible to the reader. The essays that were included in Economic Sophism were true to this style. The writer who probably enjoyed the idyll circumstances of Mugron was drafted as a lead member of men who prompted re-examination of free trade policies. Confirmed on the position taken by Bastiat as regards application of tariffs, a trade association of Bordeaux sought his help to write for them as part of a campaign that was hoisted by the association members. Here was an offer that permitted the mix of writing as a mode and working on economic policy construction as an objective, and Bastiat embarked on the task with willful alacrity. The Bordeaux Association for Free Trade came into being in 1846. In such events there were lessons that were not lost on Bastiat. These lessons were to do with the choice that he...
had to execute in terms of interventions that he as a writer, as a commentator on matters of political economy, and as a doer had to contend with. It is interesting that the writer in him brought this out, and did so not just in a manner that was limited to read as a note to him alone but also for his readers who could understand the reasons that he endorsed, sympathize with the man and his thinking, and besides marvel at the approach of the person. In the preface to Economic Harmonies, a note that he added in 1847, Bastiat writes to himself addressing the note starting with the expression ‘My dear Frédéric’, and adding, ‘Frédéric, it is our custom to speak to each other with complete candor. Well! I must say that I’m amazed at your decision.’13 The decision was that of moving to Paris to be in the thick of actions, and away from the self-imposed isolation of the estate at Mugron. And while the writer in the second person agrees it ‘not due to the promptings of vanity that you have turned your steps toward Paris’, the issue remains as to ‘what did induce you to go? Was it a desire to do something for mankind?’, and the balance of the note dwells lengthily on ‘I have a few remarks to make to you on that score.’14 What follows is a remarkable note on clarification of the writer on matters economic and political, and the course of action that Bastiat took during this part of his life. His self-scrutiny was deep and his response poised. Consider the scrutiny that he asks of himself as to why does he pursue indefatigably that what Jean-Baptiste Say and Adam Smith had elaborated so many a time, and with so much of erudition. ‘Here you are’, he asks of himself, ‘analyzing, defining, making your calculations and your distinctions, and, scalpel in hand, trying to cut through to find out just what, in the last analysis, is the exact meaning of the terms price, value, utility, low cost, high cost, imports, exports.’15 This is an admonishment, and the way forward is the suggestion that takes into account the very fabric of human life in migration to Paris was called for. The questioning end with an appeal and it is as to ‘why restrict yourself?’ And since ‘Your burning desire was for parliamentary reform and for the thoroughgoing separation of the delegating and controlling powers from the executive powers in all these branches’,19 the way forward was

Bastiat stood for elections to the National Assembly as the Second French Republic was being formed

...
arguments were directed to break the stranglehold that opinions that do not stand to inquiry of any kind and yet gets translated into firmer options that were opted for. Bastiat wrote that opinions, ‘if only it happens to coincide to some slight degree with prevailing attitudes and passions, it becomes a self-evident truth.’

In the hands of the demagogue, this was an opportunity to good to be passed over. At the receiving end, however, of such ill formed opinions converted into economic policies, were the citizenry, and Bastiat brought out his best in providing economic logic to redeem the status. It is not for nothing that he chose the term sophism to describe the status. Bastiat created continuity in reaching out to readers his studied responses to contents of policies that he recognized as ill advised ones. He did so more effectively when he assumed editorship of the journal Le libré-echange, the first issue of which came out in November 1846. The journal was an opening for many of the observations that he made about prevailing economic issues. The satiric paper that he wrote against protectionism, and named it Petition of the Candlemakers, is an illustration of his barbed wit that he used to make his point. Petition of the Candlemakers remains well known till date, and is an apt piece that explains the thinking of the man who went for the core of the issue and nailed as sophism the inadequately articulated, both in thought and letter, the outpourings of groups that sought protection for benefits to them alone. The candle makers request that they be protected against the other provider of light such that they can consolidate, and such that the economy of France is helped. Protecting the candle makers against the other provider of light would mean a fillip to many an industry. Cut off the supply of light made by the other supplier, and the populace would consume more tallow. This would mean an increase in cattle population and an increase in land availability for land would stand to be cleared and additional crops would be grown in these lands. The increase in consumption of oil would mean an enhanced production of seeds that give oil as an output. It would lead to an increase in whaling, and the consequent growth of the shipping industry. It would not be long before this growth would enhance maritime resource availability for the nation. In a sense, the combined growth would envelop all of the countrymen and that would mean a benefit for the nation and its economy. The petition, in the essay, was made in all earnestness by ‘Manufacturers of Candles, Waxlights, Lamps, Candlelights, Street Lamps, Snuffers, Extinguishers, and the producers of Oil, Tallow, Resin, Alcohol, and Generally of Everything Connected with Lighting’ to ‘Members of the Chamber of Deputies’. The issue was as to who was the alternate supplier of light that the group was against. It is best to quote Bastiat himself to appreciate the wit and the force of his argument. Bastiat writes, ‘We are suffering from the intolerable competition of a foreign rival, placed, it would seem, in a condition so far superior to ours for the production of light that he absolutely inundates our national market with it at a price fabulously reduced. The moment he shows himself our trade leaves us — all consumers apply to him; and a branch of native industry, having countless ramifications, is all at once rendered completely stagnant. This rival, who is no other than the sun, wages war mercilessly against us, and we suspect that he has been raised up by perfidious Al-bion [England] (good policy nowadays); inasmuch as he displays toward that haughty island a circumspection with which he dispenses in our case.’

Bastiat came to be recognized as one who could lay down his arguments on political economic issues with remarkable clarity. This was acknowledged, and was done so even by those who were opposed to his approach to matters economic. It is interesting to note that this was also stated as was done so by a Parisian newspaper that went ahead to write that, ‘The doctrines of the writer-economist are not our own. But we must admit that he has posed this question with all the clarity of a practical man, and that he has offered, in support of his amendment, reasons of extreme gravity, which have made a profound impression in the Assembly.’ The role of Bastiat at the Assembly was recognized as an important one. The only shortcoming was that Bastiat did not stay
ECONOMICS OF BASTIAT

A part of the Assembly for long after he had joined the body.

Economic Harmony and Economic Policies

Taxes and taxation policies are outputs of state interventions in the economy. These are not isolated events that can be seen as such but from a theory point of view have to be situated in a construct that is specific to that theory. Bastiat had outlined his theoretical approach in his book that bears the same name as the core of the approach. Economic Harmonies, the text published by Bastiat, and considered his magnum opus by many, provides the gist of his approach to his study of economics when situated in the societal construct. ‘It is in this book’, Hulsman observes, ‘that he develops and defends the thesis that the interests of all members of society are harmonious if and insofar as private property rights are respected or, in modern parlance, that the unhampered market can operate independent of government intervention.’ The market can be expected to satisfy the requirements of the populace except the interests of those whose interests are in seeking the property that rightfully belong to others. The issue of importance is not as to whether the members of a society operate in harmony; the issue is one of as to whether the respective interests of these members are in harmony with those of others. And as to what this harmony achieves for society, the same is explained by stating that it is on account of this harmony that the ‘level of humanity’ rises to better heights. In effect, then, Bastiat points out that, ‘If the social tendency is not a constant approximation of all men toward this progressive elevation, the economic laws are not harmonious’. Elsewhere, he adds that ‘all legitimate interests are in harmony. That is the predominant idea of my work, and it is impossible not to recognize its importance.’

It is in this contextual format that activities of production and consumption are carried out in an economy. This is the answer that Bastiat provides for the question that he raises when he asks, ‘Are human interests, when left to themselves, antagonistic or harmonious?’ The question was posited in the context that there were schools of approach to political economy that viewed these interests as antagonistic. Taking example of such deemed antagonistic relationships as say between such dyads as ‘proprietor and the proletarian’, ‘capital and labor’, ‘agriculture and manufactures’, ‘rustic and the burgess’, and ‘producer and the consumer’, among others, Bastiat points out that the window of antagonism is a constructed one, and one that is constructed simply because these authors ‘judge the natural organization of society bad or insufficient’. And they do so, Bastiat continues, since ‘they think they see in men’s interests a radical antagonism’. The proposal to rule out this thinking which hinges on antagonism between human beings is one that views self-interest in a manner that explains as to why human beings engage in exchange of goods and services. It is in this context that Bastiat provides what he terms as a ‘fundamental principle’, and which is that ‘interests, left to themselves, tend to harmonious combinations, and to the progressive preponderance of the general good’. It is for seeking self-interest that goods and services are offered and exchanged. When an individual seeks value, he does so for himself and in the process renders to the other the same. The other individual does it for the same purpose. The critical issue is the way self-interest is looked at. Self-interest, then, ‘is the great mainspring of human nature. It must be perfectly understood, however, that this term is here employed as the expression of a universal fact, incontestable, and resulting from the organization of man — and not of a critical judgment on his conduct and actions, as if, instead of it, we should employ the word selfishness.’

Looked at in this manner, it is in similar lines of formatting that Adam Smith wrote about when he reasoned as to why
a baker, a brewer, and a butcher carry out their activities when they do so. The issue of division of labour in society was integral to the approach. It is, then, that the self-interest of individuals that was expected to retain, and also build up on harmony in society such that at a point in time this build-up of harmonies achieved in production and exchange of both goods and services does augment a progressive enhancement of the ‘level of humanity’ in society. Bastiat also wrote that he did not expect the complete absence of dissonance in the sphere of harmony in the economic world. To concede that the system was devoid of ‘error and vice’ was to read the message incorrectly. To deduce the obviousness of such a system is to state that humans who populate such a world are themselves bereft of free will, or that they are flawless. These assumptions are not tenable. The issue then becomes as to why does harmony prevail despite the presence of factors of dissonance. The explanation provided is that, ‘All we say is this, that the great social tendencies are harmonious, inasmuch as — all error leading to deception and all vice to chastisement — the dissonances have a continual tendency to disappear.’

It is in this framework that Bastiat sees a role of the government.

State, Policies and Taxation
The idea of government that is proffered by Bastiat is based on a concept that starts with the fundamental premise of life and living itself, and on which the concept of law is affixed such that there can be organized a dissonance free conduct of life and living. Life is a gift that each individual gets and to maintain this gift, the individual uses the faculties that he has and which he uses to work on resources, including natural resources, that he converts to be of use to himself and others. In one stroke, Bastiat combines these three to write that, ‘Life, faculties, production — in other words, individuality, liberty, property — this is man.’ All else follow from this premise. Laws are made by men to endear to this premise. As a consequence, then, it becomes the natural right for an individual that he defends his person, his liberty, and his property in order to preserve his life. And likewise do all individuals in a community who have the ‘right to organize and support a common force to protect these rights constantly.’ The collective right is for all intents and purposes an outcome of the individual right, and this collective right has no other purpose than that instilled in this construct. Following this, it is prescribed that no individual or a collective group act adversely to the rights of other individuals for that would be an unlawful act and a miscarriage of justice. It is based on this viewpoint that Bastiat provides an operational definition
of law. He writes, therefore, that the ‘law is the organization of the natural right of lawful defense. It is the substitution of a common force for individual forces. And this common force is to do only what the individual forces have a natural and lawful right to do: to protect persons, liberties, and properties; to maintain the right of each, and to cause justice to reign over us all.’ He also attends to the issue in a manner that brings forth the aspect of injustice. Bastiat writes that, ‘I do not hesitate to answer: Law is the common force organized to act as an obstacle to injustice. In short, law is justice.’33 This point is as well put as an answer to the question that he raises in the context of legislations and legislators who pursue the activities of legislating. The question that he raises is ‘Logically, at what point do the just powers of the legislator stop?’34 So defined, the positioning of what a government is about becomes a call for upholding this concept and practice of law. To carry out activities that foster securing rights of individuals, then, Bastiat agrees that the minimal amount that is required to maintain equal protection is to be augmented by measures including those that involve taxation of the populace among others.35 In case the State opts for measures that are beyond these restrictions, the impact on the society turns out to be negative.

In a contribution that is included in Selected Essays on Political Economy, Bastiat turns his attention to the idea of State, the body that is at the pinnacle of the administrative concept behind the political economy of a nation. These essays are written in the manner adopted for those written in Economic Sophism. The manner and style which has been identified as befitting the best in economic journalism, Bastiat puts forth the issues as questions and proceeds to answer these questions with wit and sarcasm that is biting. The objective probably was to get hold of the reader’s attention right from the start. Consider the first sentence that he begins his essay on the State with. Bastiat writes that, ‘I wish that someone would offer a prize, not of five hundred francs, but of a million, with crosses, crowns, and ribbons, to whoever would give a good, simple, and intelligible definition of this term: the state.’36 The questions then are brought into the essay in numbers, for he writes, ‘The state! What is it? Where is it? What does it do? What should it do?’37 The answer is as attention grabbing too for Bastiat writes that, ‘All that we know about it is that it is a mysterious personage, and certainly the most solicited, the most tormented, the busiest, the most invoked, and the most provoked in the world.’38 It is a body that one expects would ‘cure all the ills of mankind’ and as regards what is expected of the State even a short list includes such diverse activities as ‘Organize labor and the workers’, ‘Repress the insolence and tyranny of capital’, ‘Furrow the countrysides with railroads’, ‘Irrigate the plains’, ‘Plant forests on the mountains’, ‘Establish harmonious workshops’, ‘Equalize the profits of all industries’, ‘Encourage art; train musicians and dancers’, ‘Restrict trade, and at the same time create a merchant marine’, and even to ‘Discover truth and knock a bit of sense into our heads.’39 The demands are many, and so are the tasks. And how does the State respond to this massive task of pleasing all segments for would it not be deemed to be a failed one if it does not succeed in placating these demands. In characteristic manner, Bastiat says he too would like to have this inexhaustible source of wealth as a resort of immediate measure. It is to this that he directs attention to and points out the folly in thinking that an external body can redeem humans of the pain that one has to go through when called upon for committing and carrying out work for a living. He can, however, escape this drudgery, if he can find the means whereby he can ‘enjoy the fruits of other men’s labor’. This was the reason behind the slave economy in some lands. But if there is distaste for workings of a slave economy, and of those who benefit from oppression endemic to that economy, the charge that it was absurd can unlikely be attributed to it. The format in which it is continued in a reduced favour of direct exploitation is to appeal to an intermediary to facilitate a transfer of benefit from someone who labours to those others who have not laboured to get that benefit to which they lay their claim to. The intermediate structure, Bastiat points out, is the State. In a distinguishing way, and for which reason he earned the sobriquet of an economic journalist of the finest kind, Bastiat writes that, ‘What is better fitted to silence our scruples and — what is perhaps considered even more important — to overcome all resistance? Hence, all of us, with what-

**Bastiat puts forth the issues as questions and proceeds to answer with wit and sarcasm that is biting**
ever claim, under one pretext or another, address the state. We say to it: ‘I do not find that there is a satisfactory proportion between my enjoyments and my labor. I should like very much to take a little from the property of others to establish the desired equilibrium. But that is dangerous. Could you not make it a little easier?’ This done, and if carried out, works as a salve to the conscience too of the requester for then the State is on the side of the requesting agency for carrying out the request. Yet given the reality of handling economic issues, the State can do no better than give with one hand what it takes with the other. The State, Bastiat informs his readers, is not a one-handed body that can continue operating in an unending act of charitable giving. It is, therefore, fallacious to think of a personified State that can work in this manner. The activity of taxation that the State goes in for is an outcome of having to retain at a minimal level that ensures harmony of the type envisaged in a just society. On the other hand an avalanche of many a tax is the upshot where interests succeed in their requests to the State to make it a little easier such that they benefit from the act. Bastiat in his writings on taxes, and tax gatherers, wrote not about the minimal amount that is required for maintenance of a society in harmony. He wrote instead on the excesses that were done in the name of governance. And while being a legislator himself, and thereby a part of the team responsible for governance, he wrote of the dangers of demagoguery that was so often practiced.

A precursor to looking at the approach that Bastiat adopted when writing on the area of taxation and tax gatherers, is his writing on what can best be expressed by referring to the terms he employed. The essay, or the pamphlet, That Which Is Seen and That Which Is Not Seen, was published in 1850, the year Bastiat succumbed to tuberculosis that he was suffering from. This essay is considered as one that is of high significance and not just as a framework essay which defines his approach to many an area that he worked on. It is considered as relevant to discourses in current day economics too. About the essay, Roche points out that, ‘Here, in a brilliant flash of insight, Bastiat put his finger upon one of the prime fallacies in economic thinking which still haunts the modern world.’ In the economic arena, the initiate of an action, whether by a law or by an institution, leads to indeed a series of consequent effects. Of these series of effects, it is only the immediate effect that is observable along with the cause of the effect, the rest of the effects remaining unseen then. Bastiat identifies the first of the effects, and the cause, and recognizes these as ‘That which is seen’. Those other effects that materialize latter are classified as ‘That which is not seen’. In a social context, the implications of these two categories are large for it almost always happens that while the consequence of the former are encouraging, it is those of the later that are grievous. It follows, then, that economic policies need to be assessed on the touchstone of both short run effects, and those of the long run category. Bastiat relates this to the practice of economic policy making, and he does so by bringing to the fore stating that, ‘Between a good and a bad economist this constitutes the whole difference — the one takes account of the visible effect; the other takes account both of the effects which are seen and also of those which it is necessary to foresee.’ The former policy maker is content with the immediate effects, and which may be driven by interests that are narrow and obdurate, and at a cost to the many. It is the later category that needs building up. The positioning of taxes as part of policy making proposed by Bastiat requires to be viewed, then, in the context of ‘that which is seen and that which is not’. Articulated sophisms can get easily couched in a format that covets the immediate and deems the long run inessential. Bastiat presents his take on taxation on this premise.

While there are references to matters
related to taxation, there are some that take up the matter singularly, while there are others such as the approach to analyze protectionism and the association of this policy with what is recognized as indirect taxes, tariff as taxes being a case in point. The issue of protectionism referred to earlier, was one of the main areas of concern and dedicated writing by Bastiat. It was an area that he had an immediacy of reason to work on having seen its effects at the first hand level. And if the note on petition by candle makers included his observations suffused with acerbic wit and scorn for indulgence by those whom he identified as working for selective benefits at expense of others, the notes on direct taxation on producers in the economy did not loose this approach either. There is, however, an attempt at drawing out lessons from his other essays, when the issue is of specific nature. The essay entitled *The Broken Window* is an effective example of this approach for it draws heavily from the earlier essay on the essence covered in *That Which Is Seen and That Which Is Not Seen*. In this essay, Bastiat attempts at proving the incursion of economic fallacy in the response of people to an event where a boy breaks the glass of a window pane of a shop, an event of commonplace occurrence in daily lives. Once the short drama associated with such events has passed away, people reason that the breaking of the glass would eventually lead to the purchase of replacement glass from a glass seller, thereby bringing in an earning to the later. The glass seller would in turn enrich other suppliers connected with the manufacture of glass, and that of supply of ingredients connected with such manufacture. The chain of benefit would cover many a producer and seller and the process of enrichment would be assessed as beneficial to the economy. The prank should therefore be thanked for helping create the chain effect that distributes benefits. To the hapless shopkeeper, John Q. Citizen, Bastiat continues, the gathered public would all say, ‘Everybody must live, and what would become of the glaziers if panes of glass were never broken?’ Bastiat compliments this part of the thinking, and states that this part is but the part ‘that is seen’. What remains is the part ‘that is not seen’. The shopkeeper had the plan to spend the money on purchase of shoes, or some other trade item. This is the part ‘that is not seen’, and had he been able to do so, his ‘enjoyment’ would have been that of a glass pane and a pair of shoes. Drawing allusion to John Q. Citizen and substituting it by the common society instead, it becomes clear that society has lost in such instances. To look at the immediate and easily visible effects is a short term construct; there is a need to keep those that are not easily visible in the focus too. Nothing new has been created in the approach that has been favoured in the instance of *The Broken Window*. The useless destruction of something followed by
a proposal to respond to the destruction, has at best retained equivalence between what would get created in place of that what has been destroyed, the loss remaining unseen in the process. Bastiat, for this reason, asks for review of such legislations that focus on the short term alone, and reminds his readers that he does so given that it is often that the emphasis on legislations is on the visible and that against the unseen. The proposal to legislators, as regards legislations on taxation, then, is ‘to begin them again, by taking into account that which is not private citizens, and the labour that had been employed was free for employment by these citizens. For all intents and purposes, then, Bastiat was elaborating on the role of the State and its proposals on matters economic when it uses the measure of taxes to effect changes. These moves, unless carried out with keeping the short and the long terms in view could lead to less than effective aftereffects.

The essay on *The Tax Gatherer*, elaborates the manner in which attempts at convincing the citizen to part with his earnings in the form of taxes are made. It is in the format of a dialogue between one Jacques Bonhomme, a wine maker, and Lascouche, a tax gatherer, and one that is conducted when the later visits the former for a share of the part of the produce the former has made during the season. As part of the volume on *Economic Sophism*, the pattern adopted for the essay is a familiar one. The asking rate of tax is about a third of the produce, and to part with six tuns of wine casks of the twenty that has been produced is too steep a proportion the private citizen is prepared to pay. He has but one point of view, and he puts in saying, ‘Six tuns out of twenty! Good Heaven! you are going to ruin me. And please, Sir, for what purpose do you intend them?’ The tax gatherer puts forth the reasons for the quantum proposed to be collected, and includes this as towards payment of costs incurred for running the country. These include payment of interest on debts secured, payment for public services delivered, payments for policing such that property is safe from roving desires, payments for schoolmasters who educate the children of the citizens, payment for expenses of the army and the navy, payments for running colonies, payments for external conquest, payments for subsidizing the manufacturers who have suffered losses in their ventures, and so on with the list getting larger and larger. The tax gatherer, at the end of the dialogue, adds that the reasons and the quantum of tax is what have been determined by the legislator who Jacques Bonhomme has himself voted as his representative to determine policies to be put forward and carried out by the State.

If the ill fated Jacques Bonhomme is what is made out of him in the essay on *The Tax Gatherer*, Bastiat writes about the manner in which the State should make use of taxation as a policy. He does this in yet another essay entitled, *Our Products burdened by Taxes*. Bastiat was not per se critical of taxes, and while he favoured a minimum to ensure
conditions necessary for harmony, he made a distinction between the correct use of taxes that were gathered and their incorrect use in terms of rendering value returns to the citizens. On return of services to the public that are of the same value, the State can be recognized as having acted in the interest of the citizens. The reverse is the case when the State fritters away revenues and is unable thereof to render equivalence of value that it ought to deliver.

In essence, then, Bastiat concludes that the ‘State may make a good or a bad use of the taxes it levies’. He adds that, taxes that are levied require to be ‘more just, more economical, and more honorable’. By being more just, he means that in such cases where society deems it correct to transfer an amount to certain members of a trade, such as an amount to be transferred for iron based industries that require the support being a fledgling industry, the same should be contributed by all members of the society. It would turn out to be more economical, for it would save on expenses on collection of taxes in this case. And as regards to be honorable, this is important ‘because the public would then see clearly the nature of the operation, and act accordingly.’

Bastiat was quiet clearly against the introduction of taxes that were claimed to lead to building up of the nation on the hand, and also adding in by taxes that were made to subsidize specific industries when these industries were covered under protection too. Doing so would be neither just, nor economical, and finally it would not be honorable to do so. Bastiat was not an anti-tax crusader; he was inimical to sophisms that got masqueraded as logical constructs of political economy.

Frederic Bastiat and His Views on Political Economy, Policies and Taxation

Bastiat and the study of his writings make for some interesting learning. The slate that Bastiat was using was a large one. His referral coordinates indicates that he was talking of the economic system and not just a part of it. It was also about a country that was passing through quick engulfing periods of what can be seen from a distance of time as those of social experimentation. In the days of occurrence nevertheless these events would have been extremely trying, and at times combative with established patterns of thinking and analysis. It took the intellect of Bastiat to put down in easy readable terms the contents that drove changes made in the economy by way of policy measures and the manner that these had to be analyzed and understood. What he wrote about bad economists has probably a larger implication. A bad economist was one who was contended to talk about the immediate and the visible. The shortcoming of ignoring long term implications was disregarded by that group of economists. It was, however, the good economist who directed the analysis to ascertain the long term implications. This is a lesson that helps in understanding the reasons why Bastiat continues to be read and as also why Bastiat should continue to be read. Like any good economist, he picked out processes that populate the world of political economy, and offered the reader the wherewithal to understand these processes. Hazlitt observes that, ‘From this aspect, therefore, the whole of economics can be reduced to a single lesson, and that lesson can be reduced to a single sentence. The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.’

The issue probably is not so much about economic journalism or economic theorizing that can be called upon to assess the contributions of Bastiat. If it is true that his theory on value may be less
appealing to practitioners of today, it is as true that early contributions to economic thought can be traced to Bastiat, as also how the approach differed from those proposed by Smith and Ricardo. There have been critical examinations of the approaches that have been built up following certain leads that were offered by Bastiat and those that followed him. The hardening of the laissez faire position in economic affairs where governmental involvement is expected to be a restricted one is one such development. There could be certain validity of this approach inasmuch as later day economists working on lines of the Austrian School have attempted to establish theoretical approaches. That has to be taken into account. It is, however, probable that there could be an element of over reading the original contribution keeping present day conditions as a frame of reference. This is so when longitudinal inferences are drawn pending significant provisions for inclusion of much that has happened since the days that were being referred to at the start. It is, however, as regards his contributory efforts in reaching out to readers of the day that much can be said of the essays that were written by him. These writings covered the political economy, they covered matters related to the making and the practice of economic policies, and at the illustration level they covered matters related to protectionism, and to those related to taxes and taxation. The contribution of Bastiat is relevant today when we need to understand the manner in which there occurs the progress of dissemination of economic ideas. This as Bastiat pointed out was an important part of societal move forward. It is about the manner in which society and its members, who all have a stake in matters of the day and also in matters of the future, get to be organized for a larger fulfillment of objectives both at an individual level and that at the level of the nation. It is true that a whole lot of changes have occurred in almost all facets of activities that get carried out as part of activities of the State and its citizens when a comparison is made of that prevalent today over that prevalent at the time that Bastiat wrote about. These include structure of political economies, that of policies that are crafted, and those of specific policies such as taxation that are introduced as part of governance. What have probably remained unchanged are a desire for harmony, and the need for debates that treats economic sophisms in a manner that unveils the unseen. Those are the reasons for studying the contributions of Bastiat.

End-notes and Additional Thinking
10 A listing of articles published in the October 1844 Volume of the *Journal des Economistes* of which that written by Frederic Bastiat (De l’influence des tarifs francais et anglais sur l’avenir des deux peuples) are available at the site http://homepage.mac.com/dmhart/FrenchPolEc/JDE/01PremierSerie1841-1853/ToC-byvolume/Pages%20from%20JDE-1844-T9-AugNov.pdf.
14 Roche, G. C. (1971), 'Frederic Bas-


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