

**National Common Minimum  
Programme of the Congress-Led  
United Progressive Alliance:  
Policy Reform and  
Public Investment Requirements**

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### **Abstract**

The National Common Minimum Programme (NCMP) of the Congress led United Progressive Alliance (UPA) lays down some of the key areas of focus of the new government in Delhi that came into office in May 2004. This note attempts to identify and analyze what the key policy reform measures and the public investment requirements might be in order to attain some of the critical objectives of the NCMP.

In terms of the thrust areas highlighted in the NCMP, focusing on rural development – agriculture, infrastructure, R & D, agro-based industries and higher public spending in health and education are the most prominent ones.

At the heart of the NCMP is the following assessment. India's poverty reduction must be built on two pillars: rapid economic growth and targeted investments aimed at the poorest of the poor. The rapid economic growth is to be based largely on the private sector, including foreign direct investments into India. Thus, the budget, for example supports many critical areas of market reform and growth promotion, including financial sector deepening, export promotion, liberalization of foreign direct investment.

We are of the view that India's rural development would essentially require an agriculture-led growth strategy. In short, the rural development strategy for India may perhaps focus along the following lines - agriculture-led growth as the main area of focus; under which, some of the key objectives may be: a) Productivity improvements, including agricultural extension, research and development, and crop diversification; b) Bringing in larger areas under irrigation so as to reduce monsoon dependence; c) Enhanced focus on agricultural exports, and much greater focus on building up rural infrastructure, with specific focus on power, roads, and availability of safe drinking water.

Just as in China, a careful balance will have to be struck between two kinds of investments in the rural hinterland (e.g. in Uttar Pradesh and Bihar): physical infrastructure in roads, rail, airports, and telecomms to bring these regions closer to the international markets, and investments in human capital, mainly education and health, to raise the productivity of the rural population. The latter investments may end up attracting jobs to the interior, eager to benefit from an increasingly skilled labor force; or it may provoke large-scale migration to more economical coastal regions. Either way, however, the currently impoverished populations would benefit from rising living standards, wherever in India they are enjoyed.

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# **National Common Minimum Programme of the Congress-led United Progressive Alliance:**

## **Policy Reform and Public Investment Requirements**

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The National Common Minimum Programme (NCMP) of the Congress led United Progressive Alliance (UPA) lays down some of the key areas of focus of the new government in Delhi that came into office in May 2004. This note attempts to identify and analyze what the key policy reform measures and the public investment requirements might be in order to attain some of the critical objectives of the NCMP.

In terms of the thrust areas highlighted in the NCMP, focusing on rural development – agriculture, infrastructure, R & D, agro-based industries and higher public spending in health and education are the most prominent ones. We would like to emphatically make the point that, in our view too, these are the very areas that India needs to focus on in order to reduce and ultimately eradicate poverty, reduce regional inequalities, and sustain high rates of economic growth.

At the heart of the NCMP and indeed in the union budget for 2004/05 is the following assessment. India's poverty reduction must be built on two pillars: rapid economic growth and targeted investments aimed at the poorest of the poor. The rapid economic growth is to be based largely on the private sector, including foreign direct investments into India. Thus, the budget, for example supports many critical areas of market reform and growth promotion, including financial sector deepening, export promotion, liberalization of foreign direct investment.

The key, however, is that both the NCMP and the budget do not rely simply on "trickle-down" economics to reach the poor. The second pillar of poverty reduction is targeted investments for the poor, and particularly for the rural poor, who are indeed the poorest of India's poor. The approach here is both breathtaking and correct. It commits the Indian Government and states to ensuring that all Indians, including the poorest of the poor, should have access to basic social investments, including health, nutrition, and schooling, and to basic infrastructure, including electricity in the villages, information and communications technology, safe drinking water, and inputs for modern agriculture. In short, every village is to be lifted up in the next few years to become economically productive.

The scale of the challenge is, of course, immense, but so too is India's capacity. There are an estimated 600,000 villages in this vast country of 1 billion citizens. Villages that are far from the major ports and cities tend to be poorer and less invigorated by the decade of rapid economic growth. The government is now proposing to equip these

villages with the basic infrastructure and services that they need to become part of the overall process of economic development and growth.

### *Agriculture*

India continues to be a predominantly agrarian economy with majority of its population depending on agriculture for livelihood. Agriculture contributes 27 percent to the country's GDP and employs more than 60 percent of the workforce. No wonder then that a holistic development of India as a nation rests on a sustained and holistic development of rural India. The predominantly rural nature of India emphasizes the need to bring about sustainable development of the rural areas and its people. A number of conditions determine how much India's poor share in the country's growth, but the extent to which the growth stems from the rural economy, particularly agriculture, is the key. However, despite all the efforts over the years, growth in rural India has not kept pace with its urban counterpart. Growth in the rural economy has lagged in the 1990s. While GDP has grown on an average of about 6 percent per annum in the 1990s and close to 7 percent for industry, the growth rates for its agriculture component has fluctuated quite a bit and has been around 3 percent per annum only. Additionally, household consumption expenditure per capita in rural areas (based on the National Sample Survey) has stagnated in the 1990s. The reasons for these outcomes are many and include, besides others, historical as well as geographical marginalization.

We are of the view that India's rural development would essentially require an agriculture-led growth strategy. In short, the rural development strategy for India may perhaps focus along the following lines:

- 1) Agriculture-led growth as the main area of focus; under which, some of the key objectives may be:
  - a) Attaining and sustaining much higher levels of productivity per hectare
  - b) Agricultural extension, research and development, and crop diversification
  - b) Bringing in larger areas under irrigation so as to reduce monsoon dependence
  - c) Enhanced focus on agricultural exports, and
- 2) Much greater focus on building up rural infrastructure, with specific focus on power, roads, and availability of safe drinking water.

In India, agricultural-productivity-led growth occurred in one major historical period, the Green Revolution, dating from 1965-66 to the early 1980s. The Green Revolution was centered on short-stemmed, high-yield wheat, and to a lesser extent paddy rice, with both crops depending on irrigation and intensive application of fertilizer. The epicenter of the Green Revolution was Punjab and Haryana, and to a lesser extent other states of the North Indian Plains (as far east as Bihar) and southward to Rajasthan, Gujarat, and Maharashtra. High-yielding rice varieties made their impact most powerfully in West Bengal and Tamil Nadu. The introduction of Mexican wheat and Philippine rice hybrids together with higher usage of agricultural inputs and mechanization resulted in India becoming surplus in food grains production. However,

the Green Revolution initiated high rates of growth (pre-1980) in crop production could not be sustained in the last two decades of the 20<sup>th</sup> century. Growth rates fell from being 3.2 percent during the Green Revolution period to 1.7 percent during the 1980s and the 90s. For the most part, this decline is attributed to the sharp fall in yield growth from 2.6 percent in the 1980s to 1.0 percent in the 1990s.

The spectacular growth in agricultural production in Punjab and Haryana during the Green Revolution is attributed to several natural and man-made factors. Among the natural factors, Roul (2001) suggests the following<sup>1</sup>: 1) nature's bounty in fertile alluvial soil of the Indo-Gangetic river systems of northern India; 2) geographical and geomorphological advantage of perennial Himalayan rivers amenable for multipurpose dams supplying cheap power and water to the canal systems; and 3) topographical advantage to lay canal systems and road networks at considerably lower costs as against those in peninsular India. The man-made factors, on the other hand included: 1) consolidation of holdings<sup>2</sup>; 2) assured irrigation<sup>3</sup>; 3) rural electrification and supply of cheap power to agriculture<sup>4</sup>; 4) and agricultural research and extension network<sup>5</sup>; and 5) less exploitative agrarian structure.

Following the Green Revolution, high growth occurred in Punjab and Haryana and also to a lesser extent in other states of north India moving southward to Rajasthan, Gujarat and Maharashtra. But as in China, this was relatively short-lived. The states of U.P. (particularly eastern U.P.) and Bihar failed to take advantage of the Green Revolution despite their ample potential for agricultural growth. This failure and the persistence of poverty in these states is largely attributed to human failure than caused by natural factors. In short, not only is a second Green Revolution needed, but it is needed in the hugely populated states of U.P., Bihar, Madhya Pradesh, and Orissa.

Significantly higher levels of public investment is needed in agricultural research and development with a view to develop new technologies, management systems, and varieties designed for higher yields or resistance to disease, drought, and pests. Research can also develop new uses for products (such as dry land crops) to help stimulate demand. Current public spending on Research & Development (R&D) is only 0.46 percent of agricultural GDP in India. This is way below the average of about 1.5 percent for developing countries as a whole and about 3 percent in a developed country, such as the U.S. Stepping up the public expenditure significantly on R & D for agriculture is

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<sup>1</sup> Roul, Chhabilendra. 2001, "Bitter to Better Harvest – Post Green Revolution Agricultural and Marketing Strategy for India", Northern Book Centre, New Delhi.

<sup>2</sup> With this, private investment for digging tube wells was made viable. With cheap electricity from hydroelectric projects, Punjab could irrigate 60 percent of its net cropped area using tube wells.

<sup>3</sup> In the mid-1960s, Punjab had already achieved 64.3 percent of irrigation of gross cropped area as against 19.9 percent for all India. By 1983/84, Punjab had 90 percent of gross cropped area under assured irrigation.

<sup>4</sup> In the mid-1960s, the per capita power consumption in Punjab was 98.3 kWh as against the all India consumption of 61.4 kWh. By 1975, all villages in Punjab were electrified.

<sup>5</sup> The Punjab Agricultural University (PAU) played a critical role in this area. Researchers at the University modified and further developed the Mexican dwarf wheat varieties and the Philippine high yielding rice varieties to suit local conditions and requirements. Since 1962, PAU has released 38 high yielding varieties of wheat and 19 varieties of rice.

therefore critical for India. Additionally, the agricultural research organizations in India need to develop suitable and pragmatic research agendas, especially keeping the north Indian states in view. Improved and expanded agricultural extension programs are also much needed to speed up the adoption of new technologies.

The majority of Indian agriculture is rain-fed, and therefore highly vulnerable to drought and climate variability, which can have disastrous economic and health impacts. Climate forecasting, farm income and weather insurance, and improved disaster planning can help reduce these impacts. Available water supplies are often used inefficiently, resulting in soil erosion, nutrient depletion, land degradation, and depletion of water tables. This creates a vicious circle of poverty, land degradation and low productivity. Increased availability of small-scale water management technologies will significantly help small-scale farmers. Community-based watershed development projects have also demonstrated excellent results, but need to be scaled up. Extending irrigation facilities on a much larger scale is vital. Of the 182.7 million hectares<sup>6</sup> of land used for crop cultivation in India, only about 50 million hectares is currently irrigated, leaving the rest to be totally dependent on monsoon rains. Frequent droughts have played havoc with the farming community in India.

Another area for focus is agricultural sector exports. In 2000/01, India exported agricultural products worth \$6 billion, roughly 13.5 percent of total national exports in 2002/03. India's share in world production of several commodities is quite significant, but its share in their trade is very low. Exports will not only create new employment opportunities, but will also increase price realization by the farmers and thereby earn foreign exchange for the country. In order to raise agricultural exports, the necessary export infrastructure needs to be in place, such as storage, port handling facilities, and large scale processing technology, among others. Additionally, not only is raising crop productivity important, improving their quality so as to compete in the global market is equally significant.

#### Market Development and Information Access

Increasing agricultural production cannot be sustained – or in many cases, stimulated - without improved markets for agricultural products. Market development can be aided by actions such as:

- Increased investment in rural infrastructure, including roads, storage facilities, power generation, and irrigation systems.
- Increasing the availability of credit to farmers, to reverse the current trends of decline in rural bank lending and dependence on high-interest private lenders. Cooperative banks and micro-credit initiatives have shown good results and should be scaled up.
- Access to information on crop prices, weather, and agricultural management techniques can be increased through expanded call centers, radio, and television media.

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<sup>6</sup> This represents the largest acreage of cropland in the world.

- A focus on livelihoods and poverty alleviation will help strengthen purchasing power and stimulate demand.

### *Education and Health*

In the education arena, literacy rates, especially in the younger age groups, for both boys and girls are on an upward trend. This is an extremely positive outcome as historically India has suffered from endemic illiteracy. However, rising literacy rates have been accompanied by unevenness of achievements: across Indian states and across various socio-economic groups. States in the Western and Southern zones of India outperform those in the East and Center. Moreover, the densely populated states of Uttar Pradesh, Bihar and Rajasthan continue to lag behind the rest of India. Literacy rates for girls, rural residents, and especially members of scheduled castes and scheduled tribes also lag behind those for boys, urban residents and the upper castes.

In terms of physical access to schools, more than ninety percent of the Indian population now has a primary school located within one kilometer of their place of residence. However, many schools have only one or two classrooms and most lack running water and toilets. These features are not conducive to a learning environment. The really critical aspect of the Indian public education system is its low quality. Even in educationally advanced states, an unacceptably low proportion of children who complete all grades of primary school have functional literacy. There is a lot of 'waste' in the school system as evidenced by the large percentage of children who dropout before completing primary schooling. Such inefficiency is compounded by teacher apathy, teacher absenteeism, very high pupil-teacher ratios and inadequate teacher training.

Public spending in education should rise from the current level of around 3 percent of GNP to at least 6 percent of GNP (and probably more) to meet the requirements<sup>7</sup>. This money should be spent mainly by state budgets along with support from the federal government and the international community, but with local responsibility for overseeing the effective operation of schools. In Madhya Pradesh, panchayats are given responsibility for ensuring school performance at the local level, including the right to withhold teachers' salaries in the event of poor teacher performance.

The federal government's 'Education for All' project (Sarva Shiksha Abhiyan, or SSA) is an excellent example of how additional public investments could be mobilized to reduce the number of out-of-school children by at least 9 million by June 2007, to narrow the existing gender and social gaps and to enhance the quality of education for all students<sup>8</sup>. This is a really good project and model of aid for India -- a national project on

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<sup>7</sup> The NCMP pledges to increase public spending on education to at least 6 percent of GDP in phases.

<sup>8</sup> As part of this project, three agencies -- the World Bank, UK's Department for International Development and the European Commission -- will provide \$1 billion for this project. World Bank's International Development Association will provide \$500 million, while the DfID will contribute \$300 million and European Commission \$200 million. The project is estimated to cost \$3.5 billion. The Centre and state

social priorities, and a few big donors that pool their resources. We reckon, India should actually receive as much as \$5 - \$10 billion per year of budgetary aid for high-priority well-targeted, mainly rural social and infrastructure spending, telling donors “just one more decade (or less) to end extreme poverty.” IDA, the EU, and Japan and USAID could be the major donors.

Studies have shown that more parents would like to send their children to school, but are dissuaded from doing so because of school fees, the poor quality of education in many schools, and great distances from home to school in rural areas. The large distances to schools especially hinder the attendance of girls. Part of the budgetary increase at the state level should therefore be to ensure the availability of schools within close proximity to every village.

One of the most effective ways to increase student enrolments is through the provision of free school meals (e.g. school breakfasts or mid-day meals, or both). Tamil Nadu has been very successful in implementing a school meals program, and this example should be generalized throughout the country. International donors, especially the United States, may be prepared to contribute to such a large-scale program, especially if the Government of India can demonstrate that such a program is an integral step in achieving universal primary education. School meals not only improve school enrolments and attendance, but also childhood nutrition. Regular school meals can be augmented with nutritional supplementation, such as Vitamin A tablets on a six-month basis.

In addition to formal education in schools, the government should promote programs of adult literacy. Students and literate family members can be encouraged to help teach their illiterate parents how to read. Small financial incentives can be organized to promote adult literacy. This would also enable the private sector to open private enterprises to promote adult literacy, with income generated by financial incentives provided by the government.

The government of India could consider taking the following steps:

- Announce specific and bold targets for education by 2010, that should be adopted nationally and in each state
- Increase public spending on education, to at least 6 percent of GDP within three years. The increase should come mainly at the state level, supplemented by federally sponsored projects and international donors, and mainly to finance universal education through age 14.
- Convene a meeting of Chief Ministers of all Indian States in 2004 to discuss how the states will meet the education targets. This meeting will allow states to

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governments would provide the remaining \$2.5 billion for the project that aims to achieve universal enrollment and completion of elementary education of children of 6-14 years of age by 2010.

present their most successful initiatives, so that all states can adopt “best practices” in public education.

- Create fiscal incentives at the Center and state levels to promote the spread of education into every village in the country.
- Support community oversight of village-level schools, including panchayat responsibilities for oversight of teachers.
- Widely promote mechanisms such as a school mid-day meals program to increase school attendance, and to improve the overall health and nutrition of school children. The government should appeal to international donors to help support such a program throughout the country.
- Aggressively utilize information technology (such as internet connectivity of primary schools) to improve the performance of the public school facilities.

India’s achievements in the field of health have been less than satisfactory and the burden of disease among the Indian population remains high. Infant and child mortality and morbidity and maternal mortality and morbidity affect millions of children and women. Infectious diseases such as malaria and especially TB are reemerging as epidemics, and there is the growing specter of HIV/AIDS. Many of these illnesses and deaths can be prevented and/or treated cost-effectively with primary health care services provided by the public health system. An extensive primary health care infrastructure provided by the government exists in India. Yet, it is inadequate in terms of coverage of the population, especially in rural areas, and grossly underutilized because of the dismal quality of health care provided. In most public health centers which provide primary health care services, drugs and equipments are missing or in short supply, there is shortage of staff and the system is characterized by endemic absenteeism on the part of medical personnel due to lack of oversight and control.

As a result most people in India, even the poor, choose expensive health care services provided by the largely unregulated private sector. Not only do the poor face the double burden of poverty and ill health, the financial burden of ill health can push even the non-poor into poverty. On the other hand, population health is instrumental for both poverty reduction and for economic growth, two important developmental goals. India spends less than 1 percent of its GDP on public health, which is grossly inadequate<sup>9</sup>. Public investment in health, and in particular in primary health care, needs to be much higher to achieve health targets, to reduce poverty and to raise the rate of economic growth. Moreover, the health system needs to be reformed to ensure efficient and effective delivery of good quality health services.

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<sup>9</sup> The NCMP pledges to increase public spending on health to at least 2-3 percent of GDP between 2004-09.

The government of India could consider taking the following steps:

- Announce specific and bold targets for health by 2010, which should be adopted nationally and in each state.
- Increase public spending on health, to at least 3 percent of GDP within three years. The increase should come mainly at the state level, supplemented by federally sponsored projects and international donors<sup>10</sup>, and mainly to finance prevention and treatment of primary health conditions such as infectious diseases (AIDS, TB, malaria, respiratory infection, and diarrhea), nutrition, and reproductive health.
- Increase public awareness and public measures to combat the AIDS pandemic, using both domestic budget resources as well as increased international funding.
- Convene a meeting of Chief Ministers of all Indian States in 2004 to discuss how the states will meet the health targets. This meeting will allow states to present their most successful initiatives, so that all states can adopt “best practices” in public health.
- Create fiscal incentives at the Center and state levels to promote the spread of health services into every village in the country. Madhya Pradesh has successfully trained a new cadre of community health workers for more than 50,000 villages in the state. This example may provide a strategy for all other states.
- Support community oversight of village-level health services, including panchayat responsibilities for oversight of doctors, primary health clinics, and other public health services.
- Aggressively utilize information technology (such as internet connectivity of primary health centers) to improve the performance of the public health facilities.

### *Food and Nutrition security*

India is home to more hungry people than any other single country. A country of over one billion, 208 million (25 percent of the world’s total) are chronically undernourished, with an additional 40 million suffering transitory hunger due to natural disasters every year. An estimated 350 million Indians are food insecure. Within the 20 percent of India’s population that is chronically hungry, women and children are disproportionately represented: 50 percent of children are undernourished and stunted; 33 percent of newborns have low birth weight; among women, 36 percent are malnourished

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<sup>10</sup> Likewise the ‘Education for All’ project mentioned above, we recommend that the federal and state governments put together a ‘Health for All’ project, perhaps another SSA, that is - Sarva Swastya Abhiyan that is a very high-priority well-targeted, and mainly rural project.

and 52 percent suffer from anemia and other micronutrient deficiencies. Infant and maternal mortality rates are extremely high.

This situation persists despite nationally adequate food production levels and extensive government programs to address hunger. India is self-sufficient in cereals and is the world's largest producer of milk and milk products. In the near term, the greatest problem lies in the limited access to, and utilization of, food. The current problems revolve around low consumption rather than low production. Access to food can be increased by raising incomes of the extreme poor, reforming agricultural policies, and by improving government safety-net programs (such as food grain subsidies, food for work, and school feeding) that are currently hampered by corruption, limited funds, poor targeting and management. Efforts to improve utilization must focus on nutrition, education, and female literacy, supplementary feeding programs, and reducing gender discrimination. Over the longer term, further advances in agricultural productivity will be required to keep up with projected population growth.

India has much strength from which to draw in its fight against chronic hunger, including an extensive government infrastructure, a thriving civil society (including a free press, NGOs and a nationwide movement of village-level "self-help groups"), a diverse array of research and technical capacity, and a growing economy. Anti-hunger efforts are hampered, however, by corruption and inefficiency in government; an indifferent media; lack of political will; deeply ingrained social inequities; and widespread poverty.

India produces sufficient quantity of food to feed its population. Total production currently stands at over 200 million tons; the country is now the world's second-largest producer of rice and is tied with the United States as the world's second-largest producer of wheat.

Despite the impressive level of production, however, there is still reason for concern about future food supply. Food production has barely kept pace with the population growth rate; demand projections show that production increases need to be at least similar to those in past decades so as to achieve adequate levels of food production in 2020. India has one of the world's largest arable land bases (170 million hectares), but production growth rates are low as compared to other countries.

The paradox of India's high levels of food production and hunger has been widely noted. India's crop mix has emphasized wheat and rice crops at the expense of more nutritional pulses (legumes, chickpeas etc.) and coarse grains, leading to an overall decline in the nutritional quality of national food production despite the increased quantities. But the primary factors behind the paradox of India's "hunger amidst plenty" are economic, social and institutional. Many of India's poorest populations lack the purchasing power to buy food, are unable to market their produce, cannot obtain a nutritionally-adequate mix of food, or – particularly in the case of women and girl-children – have limited access to food within their own households.

The apparent “surplus” of grain production in India is attributable to declining demand due to lack of purchasing power – and government policies resulting in major stockpiling of grains, some of which are then exported – rather than excess supply.

### *Panchayati Raj*

Decentralization of decision-making from the State to the local levels is important. Madhya Pradesh is probably the best example in this regard. M.P. became the First State in the country to hold elections to Panchayat Raj institutions after the 73<sup>rd</sup> amendment to the Indian constitution. This constitutional amendment provided for direct elections to all the three tiers<sup>11</sup> of Panchayat bodies with reservations for weaker sections<sup>12</sup>. Panchayats in M.P. have taken up primary education and primary health as their focus areas.

The State government has empowered the Panchayats to set-up new schools in response to community demand appoint teachers and locate land for schools. Importantly enough, the Panchayats also have the authority to dismiss teachers who are not performing. Education Committees comprising of Janpad Panchayat and District Panchayat members oversee all matters of school education like location of new schools, transfer of teachers within the District and staffing of District Institutes of Educational Training. The Gram Panchayats also manage all such schools that are set-up through the Education Guarantee Scheme<sup>13</sup>.

In the sphere of primary health, the Panchayats in M.P. recruit volunteers to become rural health practitioners<sup>14</sup> and are also responsible for disease surveillance and for reporting epidemics. The Health Committees comprising members of the Gram, Janpad, and the District Panchayats supervise all aspects of primary health management. District Panchayats are empowered to appoint doctors in vacant positions. It is noteworthy that the State has successfully trained a new cadre of community health workers for more than 50,000 villages in the state.

The role that Panchayats in M.P. are playing may provide a strategy for all other states in India with respect to primary education and health. This is critical in view of the fact that the state bureaucrats stationed in the state capitals manage the prevailing system in almost all the Indian states. Both the primary schools and the Primary Health Care centers (PHCs), especially in the rural areas are in very bad shape and in desperate need of reform<sup>15</sup>. As long as the control and oversight of primary schools and PHCs continued to be at the state-level, there is little hope of any improvement.

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<sup>11</sup> The three tiers are Gram Panchayat, Janpad Panchayat, and District Panchayat.

<sup>12</sup> 184,000 women were elected to various Panchayat Raj institutions in the State.

<sup>13</sup> The Gram Panchayats are authorized to construct school buildings that cost below Rupees 3 lakhs or 300,000.

<sup>14</sup> Popularly called Jan Swasthya Rakshaks.

<sup>15</sup> Some of the villages that we visited in Uttar Pradesh presented a very grim picture of the state-run schools and PHCs. Rarely were the teachers present in the schools and doctors in the PHCs. Infrastructure was notoriously bad. The PHCs did not have a telephone, transport, or even the basic minimum medical

It was interesting to find in some villages of Uttar Pradesh that there were privately run primary schools. These schools typically had a 4-5 room school building, 5-7 teachers, a school uniform for the children, descent desks and benches for the students and most importantly regularly run school schedules - all of this for a monthly fee of Rupees 40 per student per month.

### *Infrastructure*

The India Infrastructure Report highlighted one of the great liabilities of India as a whole, and of rural India in particular: the disastrous state of physical infrastructure. The comparison of the Gangetic states and the others is telling. In every infrastructure dimension, the northern interior states are in dreadful condition. Electricity consumption per capita is marked by sharp inequalities. Figures for 1999-00 show that the max/min ratio of per capita electricity consumption works out to 7. While this is an improvement over what prevailed in the mid-eighties, the inequality remains large. With the all India average at 100, the index of per capita electricity consumption stands at 34 for Assam and 42 for Bihar, contrasting with 239 in Punjab and 201 in Gujarat. The number of telephones per 100,000 of population varies from 728 in Bihar as against 6572 in Punjab and 5912 in Himachal Pradesh. Punjab has 8624 motor vehicles (registered) per 100,000 of population while Bihar has no more than 1289.

Unsurfaced roads were an astounding 62 percent of total road length in Bihar and 45 percent in Uttar Pradesh; compared with 12 percent in Gujarat, 27 percent in Maharashtra, and 32 percent in Tamil Nadu. In telecomms, there were 3 telephone lines per 1000 people in Bihar and 5 in Uttar Pradesh; compared with 18 in Gujarat, 29 in Maharashtra, and 17 in Tamil Nadu. Of course, these differences have a long legacy. The differences are likely to grow, however, unless adequate policy reforms are undertaken.

Rural India needs a new social contract wherein the Government's commitment, both at the National and State level should be that every village will be assured at least, clean water, a road to the regional market, reliable power, functioning schools and health centers, and minimal telephone service<sup>16</sup>. But, every village will be responsible for covering the commercial costs of those services on a normal user-fee basis. Of course, mechanisms need to be designed such that the people below the poverty line are exempt from paying these user charges. Recent technological changes in each of these areas (telephony, water, road building and maintenance, and power) allow these key sectors to be organized, at least in part, on the basis of competitive, private-sector producers, who will provide the initial financing of the investments in return for a reliable stream of user charges over time.

Recent advances in telephony, for example, microwave transmission (via cellular or satellite-based transmission) will allow low-cost commercial provision of telephone

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equipment. It was discovered that most PHCs had no work since patients never came there, but did have 10-12 full time employees, including a position for a computer operator.

<sup>16</sup> The Prime Minister could announce such a goal during his address to the Nation on August 15, 2004.

service to rural areas in ways not possible just a few years ago. As a result of massive worldwide deregulation and privatization of telecomms, combined with technological changes, fixed-line telephony is being overtaken by microwave and satellite telephony. Worldwide experience has shown that these services are best provided by competitive private carriers rather than a state monopoly. In power, the regulatory trick has been to separate power generation, transmission, and distribution. Generation can be provided by competitive private producers, who then sell their electricity into the common transmission grid. The grid itself must continue to be regulated by the government to ensure fair access of independent power producers.

### *Industry*

Deregulation of the private sector is perhaps one of the most critical areas in the context of India's reforms. Since almost 90-plus percent of the workforce is in the informal sector, it is of utmost importance to deregulate the private sector so as to get the unorganized sector workforce in the mainstream. Workers in large firms in the formal sector have a virtual guarantee of continued employment according to the Industrial Disputes Act. For firms of 100 employees or more, reductions in the workforce must be upon the permission of local government, which is almost never granted<sup>17</sup>. Remarkably, loss-making firms are also not allowed to close their operations without government consent. The results of India's highly regulated labor markets have been devastating. Formal-sector employment in India is shockingly low, in large part because so much urban employment is carried on outside of formal registration.

Out of an economically active population of some 509 million, formal sector employment was a meager 27.7 million in 2001, or just 5.5 percent! Of this, 19.1 million worked in the state sector (state enterprises and public administration), and just 8.6 million worked in private firms with formal employment. The unorganized sector workers are forced to engage themselves in subsistence agriculture or low-productivity informal employment. Indeed with a more open and deregulated economy, India may well be in a position to perform as China has done in the last two decades. Likewise China, India may also be in a position to achieve high growth, based on labor-intensive manufacturing that combines the vast supply of Indian skilled managerial and engineering labor, with foreign capital, technology, and markets.

The government needs to create a competitive environment for the private sector in India. An exit policy needs to be formulated such that firms can exit from the market freely. While it would be incorrect to ignore the need and potential merit of certain safeguards while designing an exit policy, it is also important to recognize that safeguards, if wrongly designed and/or poorly enforced would turn into barriers which may adversely affect the health of the firms. Exit policy needs to be designed in a way that it removes exit barriers and at the same time protects the necessary internal order in the firms. India urgently requires labor law reform, which provides the firms with the necessary flexibility of hiring and dismissal of workers. Presently, the land ceiling law, the Urban Land (Ceiling and Regulation) Act 1976, limits the growth of private

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<sup>17</sup> Perhaps one way to deal with this issue could be to raise the limit from 100 to 1000.

enterprises. This Urban Land Act requires urgent modification to accommodate industrial restructuring.

If the private sector in India is to perform well, ready availability of land for setting up new business activities, and adequate infrastructure, including power, ports, roads, and telecommunications are necessary. While the government has taken some important conceptual steps in opening infrastructure investment to the private sector, however, it has yet to achieve the desired results. One of the key problems is that the state governments are still very much hampered in their ability to settle infrastructure projects with foreign investors, since approval is required from the central government in most of the cases. The establishment of new legal regimes at the union level are required for roads, power, ports, and telecommunications (for local services) that give state governments' greater autonomy in attracting FDI.

### *Public sector*

The sources of equity investment in the central public sector units as on March 31, 2000 were: (a) Central Government Rs. 695 million and (b) Holding Companies Rs. 89 million. Thus, Central Government's direct involvement and involvement through holding companies was of the order of Rs. 784 million. The performance of a very large number of public industries is disappointing, often owing to reasons beyond the management's control. Performance is particularly poor in public sector manufacturing industries. Some of the public industries have done extremely well, but these are in monopoly sectors like petroleum, power and telecom, where prices are determined by government on a cost plus basis. Once these monopolies go, public industries come under severe pressure and generally become loss making. Steel Authority of India Limited (SAIL) is a classic example where the company has started making heavy losses after it has had to compete with private sector industries.

### Disinvestment and Social sector investments

India's state-owned enterprises (SOEs) do damage in two ways. First, many of the SOEs are inefficient and loss-making firms. Second, these firms tend to be protected by grants of state monopoly, especially in areas of finance, such as commercial banking and insurance, and infrastructure, in areas such as telecommunications, port facilities, and road building. An end to the state monopolization of these sectors is crucial to permit new, privately owned firms to introduce competition and higher productivity into these sectors. Privatization of these enterprises is also desirable in most cases, since the government has no particular comparative advantages in running these enterprises, and may have severe disadvantages (especially the politicization of key investment and employment decisions of the enterprises).

We are of the view that a comprehensive program of disinvestment can help raise substantial resources that could be used for enhancing the much-needed public investments in the health and education sectors that we have discussed above.

We suggest the following scheme for this: after careful analysis and background work, the government announces a major program of disinvestment and calls a meeting of all the sitting Members of Parliament (Lok Sabha - the Lower House) and informs them of this scheme wherein each Member of Parliament will be given an equal share of the disinvestment proceeds, but with the specific purpose of its usage ONLY for spending in their respective constituencies either for establishing more primary schools/primary health centers or training teachers or upgrading existing schools or health clinic facilities and so on depending on the specific needs of each constituency<sup>18</sup>.

Of course, this will require strict monitoring, preferably by the Prime Minister's office so as to ensure that funds are being utilized for the purpose they were meant for. Such a scheme is likely to help bring together the Members of Parliament from across party lines since they will all see a gain for them (irrespective of their party affiliations) as well as their respective constituencies and possibly unite them. Securing political acceptability to such an idea at the level of Members of Parliament will help a great deal in dealing with the opposition to disinvestment plans from the trade unions and others traditionally opposed to it. Should such a scheme work, it will not only help the government withdraw relatively easily from the loss-making public sector, from running textile mills to steel plants, from managing hotels to operating airlines and a variety of other sectors where the government is currently involved in, but will also help divert the much needed resources in the areas of primary health and education, especially in the rural areas.

### *Fiscal policy*

Keeping in view the fact that the reforms in India were crisis driven, and that the fiscal deficit still remains very high, the process of fiscal consolidation needs to be pursued much more vigorously. Considering the inflationary strains, the as yet excessive pre-emption of the community's savings by the government, the potential for crowding out the requirements of the enterprise sector, the pressure on interest rates, and rising interest payments on government debt, it is extremely essential to reduce the fiscal deficit still further, and more aggressively, mainly by lowering the revenue deficit. Correction of these deficits would, inter alia, require considerable refocusing and reduction of large hidden subsidies associated with under-pricing in crucial areas, such as power, irrigation, urban transport, and higher education. Food and fertilizer subsidies are other major areas of expenditure control. Be that as it may, the process of fiscal consolidation needs to be accelerated through more qualitative adjustments to reduce government dissavings and ameliorate price pressures.

While progress has been made in the area of tax reforms, the tax structure in India still remains very complicated with high rates of taxation. In the area of direct taxation, while rates of personal income tax are pretty much in line with those outside India, corporate tax rates are high. As regards excise duties, the proposed move to move to a full VAT is encouraging. Besides, octroi, a domestic trade tax, levied by the different

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<sup>18</sup> Bajpai, Nirupam, 2001. "Sustaining High Rates of Economic Growth in India", Center for International Development, Harvard University, Working Paper No. 65.

state governments needs to be eliminated since it obstructs free movement of goods within the country. In its place, as a source of revenue the state governments could perhaps temporarily share with the center a surcharge on gasoline, for instance. Similarly, the cities that now rely on octroi could switch to property taxes, as is done by most of the local governments the world over. More importantly, import duties are still high and need to be brought down. While the country has come a long way from being a closed economy to a relatively open one, India still is a highly protected economy by current international standards.

While the reforms undertaken so far have perhaps raised India's growth potential between 7 to 8 percent per year, further reforms are required to sustain these high rates of growth in the years ahead. Significantly enough, the remaining reforms are within reach, and therefore need to be implemented early. Most of the reforms that are now feared or stalled, namely, disinvestment, expenditure reform, greater foreign investment, or labor and land law reform could be implemented in a way to enhance social conditions as well as to spur economic growth. Indeed, with a more open and deregulated economy, India stands poised to repeat China's export boom of the past two decades, based on low labor costs, the availability of managerial and engineering skills within, and the inflow of international capital and technology.

The reform process so far has mainly concentrated at the central level. India has yet to free up its state governments sufficiently so that they can add much greater dynamism to the reforms<sup>19</sup>. Greater freedom to the states will help foster greater competition among themselves. The state governments in India need to be viewed as potential agents of rapid and salutary change. While some healthy competition was evident in India among the three southern states of Andhra Pradesh, Karnataka, and Tamil Nadu, along with the two western states of Gujarat and Maharashtra, however, much of the rest of Indian states are yet to begin competing with each other. Brazil, China, and Russia are examples where regional governments have taken the lead in pushing reforms and prompting further actions by the central government. In Brazil, it was Sao Paulo and Minas Gerais which were the reform leaders at the regional level; in China, it is the coastal provinces, and the provinces farthest from Beijing, in the lead; in Russia, reform leaders in Nizhny Novgorod and in the Russian Far East were major spurs to reforms at the central level.

India will, however, likely continue to face the same problems as China in the inland areas, particularly the inland rural areas. Even with faster overall growth, the inland areas are likely to grow more slowly than the coastal areas, opening a widening gap between the fast and slow-growing regions. This does not mean absolute immiserization of the interior, of course, but it will likely provoke political pressures as well as increasing internal migration from rural areas to cities and from the interior to the

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<sup>19</sup> India's constitution was designed to give primary economic policy making responsibility to the central government. Key fiscal, infrastructure, and regulatory decisions on economic management are therefore taken by the central government. For instance, in most infrastructure areas, the central government remains in control, or at least with veto over state actions.

coast. India, however, probably has an advantage over China in that China's far West is much farther from the coast than India's heavily populated interior regions of the Gangetic valley. China has 4 cities of more than 1 million that are more than 1,000 km from the coast (Chengdu, Lanzhou, Urumqi, and Xian) while India has none. All of India's large interior cities are within 1000 km of the coast

On the social sector front, the NCMP pledges to increase public spending on health to at least 2-3 percent of GDP between 2004-09 and to increase public spending on education to at least 6 percent of GDP in phases. While this is certainly encouraging, these increases too fall short of the needed public investments in these sectors. Increasing spending in health and education is necessary to effect change, but higher spending should also be coupled with reform of the institutions of service delivery. Decentralization from the state to the local levels in these sectors could lead to better control and oversight, and ultimately, to accountability of teachers and doctors, especially in the rural areas.

Just as in China, a careful balance will have to be struck between two kinds of investments in the rural hinterland (e.g. in Uttar Pradesh and Bihar): physical infrastructure in roads, rail, airports, and telecomms to bring these regions closer to the international markets, and investments in human capital, mainly education and health, to raise the productivity of the rural population. The latter investments may end up attracting jobs to the interior, eager to benefit from an increasingly skilled labor force; or it may provoke large-scale migration to more economical coastal regions. Either way, however, the currently impoverished populations would benefit from rising living standards, wherever in India they are enjoyed.