

Business Standard

Subir Gokarn: The state of the state

If we can't live with our state, we can't live without it either

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Whether the state, as an institution, is doing the right things and has the capacity to do them are fundamental questions in a liberal democracy. As India approaches the next general election, these are particularly significant questions. However, the articulation is as yet fuzzy and needs to get sharper if it is to translate into a meaningful strategy.

History tells us that, tempting as it might be to compartmentalise it into neat little boxes, the role of the state in economic development really straddles a continuum. Even with reference to individual countries, the state has played different roles at different points in time. In some ways, one could argue that successful development is significantly due to the state playing the right roles at the right times. Other factors have mattered, of course, but the difference between good and bad economic performance over long periods of time could be the result of the state effectively reinforcing positive forces and mitigating negative ones.

India's transition out of the state domination of the economy until the 1980s can be viewed through this lens. Particularly in the 22 years since the defining change in trajectory in 1991, the general thrust and much of the focus have been on the state's disengagement from economic activity. However, the recent decline in economic performance and its attribution to some severe structural constraints have begun to raise concerns about the state having disengaged too early and too much from many activities, which are now contributing to the adverse outcomes. From this perspective, getting back to - and sustaining - rapid growth needs some serious rethinking of the roles that the state needs to play and, equally importantly, developing the capacities that it needs in order to play those roles effectively.

A convenient way to look at this issue is to divide state roles into two categories. One might be called "enabling", the other "delivery". The distinction is quite straightforward. In the former, the state defines the objectives and rules and then monitors and assesses outcomes of services delivered by non-state entities. In the latter, it takes on the responsibility of delivery, presumably on the premise that any other arrangement will necessarily lead to an inferior outcome.

The core instrumentalities of the enabling role are regulatory institutions and frameworks, while the main requirements of the delivery role are execution capabilities and accountability mechanisms. Over the past 22 years, the Indian economy swung quite tangibly from the delivery to the enabling end of the continuum. And there is little question that this has generated enormous benefits in terms of economic performance. But the routine aggravation of structural constraints also suggests that the right balance between roles has not quite been achieved. There are three main reasons for this.

One, there was an initial presumption that a properly regulated private sector could very quickly take on the delivery role for many, if not all, services previously delivered by the state. This may be the outcome of many factors combined - the limits of regulatory power, the availability of appropriate human capital, the inadequacy of the governing legal frameworks and, importantly, the limited capabilities of potential private sector providers,

among other things. The transition from public delivery to regulated private delivery in the Indian context has had its successes, but it has also seen not-so-successful outcomes. In these situations, these outcomes are to the detriment of both consumer and producer interests.

Two, there has been very little movement along the execution and accountability dimensions as far as delivery by the state is concerned. Here again, there are many instances of successful delivery at all levels of government, but the dominant story is the one in which standards fall short of some reasonable benchmarks as well as expectations. This falling short is visible not only in services directly reaching individuals but also, very importantly, in the services delivered to businesses. In a sense, this is a situation of "what one hand giveth, the other taketh away". A strategy that emphasises private investment in an increasing range of sectors is unquestionably diluted by the barriers that the state puts in the way of such investment.

Three, institutional structures and human capital formation have lagged far behind requirements. It is striking that 22 years after the private sector's operating environment was subject to such dramatic changes, the conditions in which state institutions operate remain virtually frozen in stone. Recruitment processes and standards are virtually the same as they were two decades ago. In an environment in which strategic, regulatory and execution functions call for both specialised knowledge and relevant experience, the generalist still rules in most senior government positions.

These issues must find focus and attention in the government's efforts to redefine and redesign the state. Without this, the future trajectory of the Indian economy will be like its past - occasional bursts of outstanding performance, but flattering only to deceive. Sustainability requires a clear sense of the roles that are to be played, when it is best to change them, and what resources and institutions are required in any situation.

As with any change agenda, the complete picture usually looks so daunting that the easiest thing to do is nothing. This explains why dramatic change typically takes place in response to crisis; there simply isn't any other option. India's economic policy story exemplifies this. But, equally, there are any number of experiences and learnings involving evolutionary change, which finds a balance between non-disruptiveness and significant impact.

In other words, rather than thinking in terms of an all-or-nothing change agenda, it may be more realistic to work towards a small, manageable number of change initiatives every year. Each of the three factors indicated above provides opportunities to do this. On the regulatory front, for example, two or three acts that govern regulators could be subject to a reassessment with respect to their effectiveness in the context of their sectoral realities. On the public delivery front, showcasing successes and identifying new areas for implementation can set the ball rolling. On human capital, systematising and incentivising lateral entry of specialists in certain areas is a way to get started.

We have to come to terms with the reality that our state may be the biggest stumbling block to sustained economic performance. But if we can't live with it, we can't without it either. Change is imperative.

The writer is director of research, Brookings India, and former deputy governor of the Reserve Bank of India. Views are personal