

# **Inequality, Inefficiency, and the Challenges for Social Democracy in India's Economic Transition**

**By**

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## ***I The Various Inequities and Deprivations***

Different people mean different things by social democracy. Without going into that discussion let me start by briefly describing what I'd mean by social democracy in this paper and then go on to analyzing the various challenges that the Indian economy faces in bringing it about.

Social democracy for this paper has three essential ingredients:

- (1) Democracy primarily in the form of meaningful political competition, effective accountability mechanisms, and some basic human rights;
- (2) A competitive and incentive-compatible economic system with individual property rights within reasonable bounds, and economic coordination mechanisms provided by markets, multi-tiered government as well as community organizations, with these mechanisms operating in different fields in mainly complementary ways;
- (3) An effective and comprehensive system of social protection for the great masses of people from deprivation, destitution and vulnerabilities to individual and social risks of different kinds.

In this paper I shall keep (1) and (2) largely in the background, without a great deal of discussion, and look at problems of achieving (3) under the circumstances. Even though I am fully aware that we have miles to go on (1) and (2), India is at present particularly and atrociously deficient in (3). India is the world's largest country of illiterates and school dropouts, of child and maternal mortality, largest number of stunted and underweight children, and the

largest incidence of anemia and TB, and the overwhelming majority of people lacking any of the social benefits that are considered as part of a minimum social safety net. More than 400 million people have less than what by Indian official standards will be considered the barest minimum poverty line. If one takes income inequality, or what is more important, inequality of economic opportunity, Indian inequality is one of the highest in the world, contrary to conventional wisdom. In a country like India inequality of opportunity largely depends on distribution of land, of education, and social identity—a child born in a rural landless *adivasi* (indigenous) family with very little scope for education will be severely handicapped in her life chances for no fault of her own.

It may be well-known that land distribution in India is much more unequal than, say, in China (this is partly because India has a much larger landless population). But most people seem to be unaware that India's educational inequality is one of the worst in the world. If one measures this inequality, very crudely, just by looking at the years of schooling in the adult population, it is worse than that in almost all Latin American countries, and some African countries, not to speak of China--again, this is partly because of India's large illiterate and near-illiterate population. Taking a long view, what is more important than static inequality is inter-generational mobility. On this quantitative empirical work is rather scanty, but social mobility may be particularly low in India, partly no doubt because of the deadening legacy of the system of caste oppression and discrimination in India (though there is some evidence that social mobility is improving for some of the low castes).

Some people think that preoccupation with issues of inequality deflects attention from economic growth which is what mainly alleviates poverty, through creating new and better jobs and generating more public revenue for welfare programmes. But how much of growth trickles down to the poor itself depends on initial inequality (for example, it has been estimated that the same one percent rise in growth reduces poverty by much less in India than in China partly because of the higher inequality in India) and the resultant distribution of economic and political power. Besides, inequality of opportunity itself can have serious adverse effects on economic growth. This is particularly important when there are barriers faced by the poor in

land and capital markets and in skill acquisition and in coping with risks, which sharply reduce a society's potential for productive investment, innovation, and human resource development. They often block the creation of socially more efficient property rights (for example, in land tenure) and investment in high-risk but high-return innovative projects on the part of small producers. Inequality that keeps the work force largely uneducated and unhealthy cannot be beneficial for private business either, apart from the law and order problems that inequality-generated conflicts may bring about. Moreover, institutional structures and opportunities for cooperative problem-solving are often foregone by societies that are highly polarized.

Sociologists have noted how extremely hierarchical the work organization within Indian factories is (often reflecting the social stratification outside), and this is not unrelated to the low productivity of Indian firms even in simple production processes compared to other countries, and the social distance and distrust between managers, supervisors and 'jobbers' on the one hand and the great majority of workers undermine the cooperation that is needed for day-to-day shopfloor innovations that characterize more productive workplaces. Equity and efficiency thus often go together, contrary to the opposite presumption of much of orthodox economics.

Apart from severe deprivations and high inequality of opportunity, another feature of the economy that raises special challenges for social democracy in India is that of all the major developing countries India has the largest informal sector, with 94 per cent of the labour force working there, most of them daily facing the brutal insecurity of no retirement, disability, unemployment or health benefits. Even outside the agricultural sector more than 80 per cent of the labour force is in the informal sector. The tiny minority of formal sector workers (two-thirds of them government employees) cling on to their paltry privileges with nervous militancy, as they face the social vertigo of looking on the vast masses of the unprotected huddled down below. This great void, the absence of even a rudimentary framework of general social assistance, makes the implementation of social protection as difficult as it is urgent.

The process of economic growth in a world of global competition has made this worker anxiety and insecurity more acute. Even when market competition does not lead to *net* job loss, it usually causes a great deal of job churning and displacement. Even in rich countries with

relatively weak safety nets (like the US, in contrast to the Nordic countries) this leads to stiff working class opposition to global competition. There is some evidence that increased global competition in the last two decades has wiped out some of the low-productivity tiny informal firms in Indian manufacturing, who may have then crowded the non-traded sectors. It is not surprising that in India where any safety net (outside the diminishing support of extended families and kinship groups) is absent for the overwhelming majority of people, most survey evidence suggests that market reforms are vastly unpopular. Yet these reforms are important for unclogging the channels of entrepreneurship and innovation.

The matter is made much worse by the fact that, unlike in China and Vietnam where the initial growth spurt has been in labour-intensive industries, in India the success stories so far have been largely in skill-intensive (software, business processing, pharmaceuticals) or capital-intensive (machine tools, vehicles and car parts) sectors, and as a result the high economic growth has not resulted in a large expansion of job prospects for poor unskilled workers. The public policy deficiencies in education and skill formation have also limited the employability of the poor workers in many of the new jobs.

A growth pattern that is skill- and capital-intensive obviously exacerbates the problem of inequality. In addition there is a peculiar bi-modality in the size distribution of manufacturing firms in India; most firms are bunched at the lower end with very low productivity, paying extremely low wages, whereas at the higher end (with a 'missing middle') of the firm size distribution wages paid are much higher. This large wage inequality in the same industry adds on to the inequality between capital and wage incomes.

On top of all this there are the usual processes of agglomeration economies of scale in the early stages of growth which lead to regional and sectoral concentration—resources and capital move to 'growth poles', the poorer areas fall behind. The large urban growth—driven by such agglomeration forces— that India is expecting in the next two decades, with the urban population expected to reach 600 million, will enhance this inequality, apart from straining the urban infrastructure to near breaking point and stoking the nativist forces in big cities in resistance to large-scale migration from the rest of the country. Yet the productivity gap

between the rural and urban sectors or between agriculture and manufacturing and services is so large that such transition will be inexorable in the process of economic growth. In situations where economic growth involves extraction and processing of minerals from land currently belonging to the indigenous people of India who are uprooted in the process, or acquisition of land in general from the peasants for commercial and industrial development, a great distributive conflict is already shaping up, often turning into violence, ultimately turning on the question of the appropriate distribution of the large rental income from scarce appreciating resources, now accruing disproportionately to the corporate oligarchy, real estate tycoons, the mining mafia, and their political patrons and collaborators.

It is in this larger context of the mounting forces of inequality and displacement, the need for organizing a viable system of social protection, already rather enormous, is all the more desperate.

## ***II Approaches to Social Protection: A Critical Appraisal***

In the Indian discussion there have been different approaches to the question of how to tackle social protection. A very popular approach these days is to couch it in terms of 'rights' (to food, education, information, jobs, etc.), and there is a great deal of commendable activism on this front, and already some achievements to show, particularly in the landmark legislations on the right to information and to work on public works projects (though their implementation in many states are as yet rather slow and feeble, and facing a great deal of resistance from bureaucrats, contractors, etc.). This approach can, at the minimum, serve to raise consciousness among the poor and vulnerable about their entitlements, a sense that they are not mere supplicants to the politicians or bureaucrats, that if the latter fail there is access to courts to enforce these rights, and public-interest litigation and court injunctions on these matters have attracted a great deal of attention.

But at the same time one should recognize some limits to this rights-based approach. If the delivery structure for implementing some of these rights remains as weak and corrupt as it is now, mere promulgation of rights will remain hollow and will, after a point, generate a great deal of cynicism. Indian public arena is already littered with hundreds of unenforced or spasmodically enforced court injunctions, and there is some danger of the proliferating judicial activism in stretching the interpretation of the constitutional 'right to life' ending up, for all its good intentions, in undermining the credibility and legitimacy of the judiciary itself.

For example, if the right to food is exerted with no consideration of the efficiency and cost-effectiveness of the ways of implementing it (like the current Public Distribution System—PDS—which in many states is an enormous project of theft and wastage—a rough estimate is that less than a quarter of the subsidized foodgrains reaches the poor), it is an unwarranted and unfair burden on taxpayers who fund the galloping costs. In any case the programme as currently administered is weakest in the poorest regions that need it most. Food stamps that have been advocated from time to time will reduce some of the wastage and theft in the storage and distribution by public agencies, but will not eliminate the problems of (a) fraud rampant in non-universal means-tested targeting like that to below-poverty-line (BPL) people and (b) the development of secondary markets where merchants buy up the stamps in exchange of some (smaller) cash—in which case you might as well directly give people cash rather than stamps. The recent Right to Education Act does very little for the poor quality—and quantity-- of education services actually provided in government schools (that drive children to private schools even though teachers there are by and large less qualified and less well-paid) or about the negligence with which the new poor students foisted on the private schools are likely to be treated without a proper quality evaluation of schools in place, or the remedial education that the poor-performing children (at private or government schools) and the school dropouts desperately need.

The current Employment Guarantee scheme, the largest of its kind anywhere in the world, for all its flaws (which would have been far less if a regular and institutionalized system of independent social audits were in place), provides a possible fall back option for many able-

bodied rural adults for working on mostly construction projects for a period of 100 days every year (though this limit of 100 days and timely payment of wages have so far been reached only in very few areas), and this may have already exerted some positive indirect effects on the rural wage earned by the poorest people. This is, of course, quite different from the right to job often demanded by organized workers in the formal sector. The right to job, if narrowly interpreted as the security on a given job, can considerably distort the labour market, if it freezes the ability of the employer (public or private) to adjust to changing conditions in technology or market, thus hurting the whole economy, and the job prospects of less privileged workers. It is very important to distinguish between *economic security* and *job security*. A worker should have the right to expect from society general economic security, but not security on a given job. My own empirical judgment, however, is that stringent labour laws that are aimed at ensuring job security in large industrial firms may not be the most important constraint on Indian industrial growth; other constraints like infrastructure, credit and marketing may be more important in many cases, but that they constitute a constraint cannot be denied. There is ultimately no alternative to a package deal between employers and organized workers: allowing more flexibility in hiring and firing has to be combined with a reasonable scheme of unemployment compensation or adjustment assistance, from an earmarked fund to which employers and employees should both contribute. No Indian politician has yet gathered the courage or imagination to come up with such a package deal.

The distinction between economic security and security of a particular job (usually in the formal sector) also brings to the foreground a particular conflict among workers which organized trade unions would rather slur over. It is well-known that social democracy in Western Europe came out of a historic compromise between capital and labour (the latter gets socially protected and a reasonable share of the economic pie, and in return gives up its democratic power of expropriating the former, so that it can carry on its innovations that expand the pie). In India where the informal sector is massive, social democracy may require an additional implicit compromise in the labour market, between formal and informal workers – since in many ways their interests may be in conflict (one example is stringent job protection of formal workers may be at the expense of the potential expansion of job possibilities for informal workers;

another example is that the general strikes and *bandhs* frequently called by formal sector unions as part of their organizational muscle-flexing paralyse city life and rob the daily informal workers and street vendors of their subsistence). Besides, the strongest organized workers are those in the public sector services, and it is their corrupt and callous service non-delivery which the poor informal workers as potential recipients have to face every day.

In general one should not look at the social protection rights in abstraction from costs (direct and indirect), delivery mechanisms or even their political constituency. Well-designed, well-administered, cost-effective programmes of implementing some basic rights generate more political support even among those who are paying for them. One should, of course, mention here that one positive implication of the rights approach is that of universal principles and standards, which in some cases may help better administration. For example, it has been pointed out that the PDS for food generates less malfeasance when it is universal (as in Tamil Nadu); as we have indicated before, when some people are excluded under a targeted system of delivery, it leads to dual markets and more incentives and opportunities for fraud, apart from eroding its larger political support base.

On universalistic principle of social protection one of the cleanest and least incentive-disruptive ideas, both ethically and economically compelling, is that of Universal Basic Income (UBI), under which everybody, rich or poor, gets an unconditional annual (or periodic) income supplement. This is an old idea, originally inspired by some European 'utopian socialists' in the 19<sup>th</sup> century, tried unsuccessfully in McGovern's Presidential campaign in the USA in the form of a proposed 'demogrant', currently supported by some Green Parties in Europe, and actually implemented in non-socialist resource-rich Alaska since 1999 (in the form of an annual Permanent Fund Dividend). In the West the discussion in opposition to the idea usually centres around the encouragement this may give to idleness and dependency and the 'unfairness' of a handout to the rich as well. I think we need to worry less about idleness in a country where the overwhelming majority of the people are extremely poor and overworked. Giving to the rich as well may be found administratively tolerable by many who know the formidable problems of monitoring and corruption in India in trying to target it only to the poor. The main question is: if



we want it to be universal, can we afford it? Of course the answer depends on the amount to be given out, if this will be a replacement for the existing transfer programmes which have a lot of wastage and misappropriation, how the problem of misappropriation of the basic income supplement will be handled, etc. Let's make some back-of-the-envelope calculations.

Suppose in a country of 1.2 billion people we want to give out every year Rs. 5,000 to each family (assumed to have 5 members). This amounts to Rs. 120 thousand crores (not counting administrative costs, which need not be large, with electronic help). Let's assume, for the time being, that with the forthcoming installation of the electronic Unique Identification System (UIS) the administrative costs of this unconditional transfer program will be minimal. Let's now compare this sum of Rs. 120 thousand crores with some benchmark figures. The total estimates of how much is currently spent by the government on all the anti-poverty programs combined easily exceed this amount. What is more important is that this amount is much less than the total subsidies the government gives out to the relatively *rich* every year. We do not have iron-clad estimates of the latter. The National Institute of Public Finance and Policy has from time to time estimated the total amount of subsidies (implicit as well as explicit) given out by the central and the state governments. This comes to about 14 per cent of GDP every year. These subsidies are classified into 'merit' and 'non-merit' subsidies. Without going into the intricacies of the definitions, let us say, very roughly, that the non-merit subsidies mostly go to the relatively rich. Of the 14 per cent of GDP in total subsidies, roughly two-thirds have been estimated to be non-merit subsidies: that comes to about 9 per cent of GDP. Let us make a conservative estimate and bring this figure down to 6 per cent of GDP as going to the relatively rich. In 2009-10 the annual GDP of India was about Rs. 4500 thousand crores (at 2004-5 prices); 6 per cent of this comes to Rs. 270 thousand crores. So what the government pays out as subsidies every year to the relatively rich is more than twice the amount it'll need to pay out a basic income supplement of Rs. 5,000 to each family, rich or poor. And if this replaces some of the existing dysfunctional programmes (like PDS) or not very effective cash transfer programmes (like SGSY—Swarnajayanti Gram Swarajgar Yojana—or IAY—Indira Awas Yojana), the income supplements can be even larger. All this is based on a very rough and ready

calculation and one should not take the estimates too seriously, but it gives us some sense of proportion.

But are the possibilities of misappropriation that afflict most social protection programmes in India seriously lower with the basic income supplement idea fortified with UIS ? If the money is deposited in an account (at a nearby post office or bank) from which withdrawals require biometric identification, and no means-testing or rich-poor classification is necessary, many of the current problems of fraud and corruption and manipulation of BPL category are likely to diminish considerably. Yet one cannot rule out possibilities of clerks who'd issue the withdrawn money demanding bribes, or local musclemen regularly extorting some of the cash from the defenseless recipient (like robbers in many countries taking their victims to the ATM machines and forcing withdrawals). Of course, when PDS gives a poor man subsidized food that can also be robbed and sold in the market, but I suppose the lure of direct cash may be stronger for the criminals. Similarly, chances of alcoholics and drug addict recipients blowing the cash are a problem that worries many critics of such programmes. Of course there are two kinds of reaction to this. One kind is the libertarian one, saying that we should let people decide how they want to spend the money, bearing the consequences of their decision is part of the responsibility that every individual has to take, etc. The other is the soft-paternalistic kind, trying to minimize the problem by handing over the money to the usually more responsible female adult in the household, devising all kinds of good-specific vouchers, etc. In a country where women and children are among the most deprived in the usual way a household is run, and child and maternal mortality and malnutrition are among the worst in the world, concerns about how unequally the unconditional cash transfer is spent by the family are to be expected and the matter may not be left simply to the mercy of individual responsibility.

More importantly, just handing over more money to the poor resolves only part (the financial part) of the social protection they need. As petty producers they also need other kinds of assistance (knowledge, skills, marketing connections, etc.) or as patients they need information about doctor quality, health practices, nutrition and sanitation, and so on. In the urban slums

where the rural kin group support structures are weaker, social protection has also to involve active social support structures against violence, drugs, family breakdowns, juvenile delinquency, etc.

In any case it is probably highly unrealistic to expect that the relatively rich in India will easily give up on much of the subsidies they enjoy or that the vested interests that have accumulated around long-standing wasteful programmes like PDS will allow anything more than moderate tinkering. So proposals like unconditional cash transfers or universal basic income supplements are unlikely to fly in the politics of the foreseeable future, as the question of 'can we afford such programmes?' will remain under those political constraints, even though, as we have seen, in principle it is resolvable. New programmes of social protection with a great deal of targeting (with lower costs but also more leakages) and some additional garnering of resources are more likely to be implemented. One class of such programmes is that of conditional cash transfers, with the added weapon of UIS. In some sense the Rural Employment Guarantee is one such programme, of cash conditional on work, with self-targeting saving some administrative costs and leakage as the non-poor will not usually want to work on such manual, often back-breaking, construction works. UIS may reduce a great deal of current leakage in the form of false muster rolls of workers. In the delivery of social services, nothing on the scale of Oportunidades in Mexico or Bolsa Familia in Brazil has yet been attempted in India. Most of the conditional cash transfer programmes for these services in India have been relatively small and aimed at ensuring the survival of girl children (and their mothers at the time of birth), and their continued education in schools and in raising their age at marriage. We do not yet have enough rigorous evaluation of these programmes.

In general, the main presumption of conditional transfer programmes is somewhat paternalistic: left to themselves the poor do not exert enough effort in sending their children to school, health clinics, immunization centers, etc. So transfer programmes try to induce them with contingent transfers. There is a large administrative cost in monitoring and enforcing the stipulated conditions. In any case, such demand-sided interventions (inducing the poor to

demand the services) do not solve the supply side problems which are severe in India: not enough schools or health clinics, facilities, quality teachers or doctors, teacher and doctor absenteeism, etc. Of course, on the supply side, our bureaucracy is often not mindful of (or interested in) the fact that the government may be the financier but need not be the actual supplier and can work out all kinds of innovative solutions. For example, it can finance the education services but outsource some of them (as in the case of charter schools in the US); just as in the case of PDS, the Food Corporation of India can outsource its warehousing to private companies, instead of letting its procured grains rot outside (about one quarter of the total in recent months) for lack of public warehousing space.

### ***III Governance Issues in Social Protection***

In the previous section we discussed the pros and cons of different approaches to social protection in the Indian context. In this section we discuss some generic governance issues that arise in any scheme of social protection and are particularly acute in India. First, let us take up the delivery mechanism itself. If the services are to be provided by the government, are there enough incentives on the part of the bureaucracy? In the Indian civil service (which has often been described as neither much service-oriented nor very 'civil') rewards are not in general performance-based, promotions are often mainly seniority-based. Frequent transfers, sometimes arbitrarily determined by the political bosses, discourage the development of any stake in any particular locality of service. Bad performance is very seldom punished; in any case the measurement of performance is 'noisy' particularly when the quality of service is necessarily multi-dimensional. This promotes a rampant culture of impunity. The school teachers and doctors and nurses are not punished for the dereliction of their duties, their salaries and promotions are decided from above, not by the local people who bear the brunt.

This obviously suggests the need for decentralization and accountability downwards. In fact there is some evidence that in some cases (e.g. in Nagaland) where even a very small fraction of

the teachers' salary was paid by the local panchayat or village council, it immediately led to a significant improvement in services. But in most parts of India, while local elections are now regularly held, effective decentralization is missing, on account of a severe dearth of devolved funds or delegated power or appropriate professional personnel. Local elections are usually fought on supra-local issues, and more often than not the state-level politicians and bureaucrats hijack the process of mandated devolution. Such hijacking is made easier by the lack of inner-party democracy in almost all political parties, so that local political leaders are at the mercy of the higher-tier leadership. It has not been widely recognized in India how the lack of inner-party democracy, apart from making political parties structurally undemocratic, has the side-effect of corroding the vitals of local democracy in India.

The situation is particularly ironic in the cities, where the elected municipal governments, while presiding over areas where much of the booming wealth of India is created, have neither the autonomy nor the revenues to significantly improve the quality or quantity of municipal services. The electoral process also encourages political clientelism, politicians find it easier to lure voters with promises of private goods (say, color TV sets or loan waivers) than those of long-term improvement of public services (say, quality of schools). Both capture (by the local elite and the state-level parties) and clientelism have ensured that local democracy remains the weakest part of Indian democracy.

There are some extra incentive and structural issues in health services (qualitatively some similar issues arise also in education or nutrition programmes). At the moment health care in India is primarily private (and largely unregulated). Household survey data suggest that 85 per cent of all visits for health care in rural areas, even by the poorest people, are to private practitioners. While the poor quality of service in public clinics and hospitals (and absenteeism by nurses and doctors) often drive patients to private doctors (some of them quacks or crooks), in some cases even when the public services are available, the patients prefer going to private medical practitioners who more readily oblige them with unnecessary antibiotics and steroids.

The public health delivery system is afflicted by poor provider incentives, coupled with low accountability to the patients. The medical personnel are paid a fixed salary independent of the number of patients or of their visits, so they have no economic incentive to serve them in the public clinic (they have all the incentive to ask patients to come to their private chambers for paid service and send them for unnecessary diagnostic tests at labs in which they have a monetary interest). The poor have very little organized 'voice' in sanctioning the errant provider. They are assertive in elections, but even a local election is a blunt instrument of sanction for any particular service: electoral platforms are multi-dimensional where specific grievances about any particular public service provider get diluted, often by larger state-wide issues. In addition, compared to curative medical services, the Indian system is particularly deficient in systematic planning and delivery of preventive public health services or sustained programmes of large-scale disease control (the public health administration in Tamil Nadu, I understand, is a major exception). One of the cost-viability problems for any public health insurance service for the poor in India (like the as yet fledgling programme, RSBY—Rashtriya Swasthya Bima Yojana-- that is supposed to cover up to Rs. 30,000 for hospitalization-related expenses for BPL families) is that the poor in most cases go for hospitalization with illnesses (like diarrhoea or typhoid or malaria) which could be prevented by basic public health programmes like provision of clean drinking water, sanitation, spraying, etc. Thus the deficiencies of public health administration in India in carrying out its primary duties make health care insurance so costly.

Outside of government or private provision of health services there can be other alternatives. Several NGO's in India, as part of their development programmes, have initiated community health insurance schemes for poor people, often linking up with an insurer (with a larger risk pool) and purchasing health care from an external provider. SEWA in Gujarat is an important example of organizing community health insurance for its members and their families in this way. This and other similar models need to be studied and replicated in a much larger scale in worker associations and cooperatives in India, particularly in the informal sector. In the history of German social welfare programs worker associations played a leading role. In India where the informal sector is much larger, small-scale associations need to be mobilized for social

insurance, the NGO's can play a mediating role with insurers and help processing payments of premium (apart from identifying beneficiaries and giving them the requisite information), and the government can introduce some provider accreditation systems to help the choice of providers.

#### ***IV Livelihood Protection as part of Social Protection?***

When the informal sector is large and the majority of people are self-employed in tiny farms or firms, the boundary between a household and an enterprise is blurred, which means social protection programmes may have also to involve various kinds of protection of livelihoods. These include provision of credit, development of marketing networks, insurance against production risks (say, rainfall insurance in agriculture, renting out service for generators to cover power outages in manufacturing firms or repair shops), roads, extension services, etc. For those who work in the casual wage labor market and for the unemployed, skill formation, vocational training and public facilities to connect them up after training with potential employers can all be part of a general social protection program.

Of course all these programmes will cost a great deal of money (apart from organizational resources). To some extent and to the extent politically feasible, some restructuring of existing wasteful or ineffective programmes will save some money. But ultimately, as the European experience shows, social democracy is expensive on the public exchequer, it'll be more so in India where poverty and deprivation are so massive. India's tax to GDP ratio is at the lower end among major developing countries (much lower than in China). While keeping in mind that higher tax rates often encourage more tax evasion, there is a lot of scope for raising the tax to GDP ratio, particularly from capital gains, inheritance, and the burgeoning rental incomes of various kinds--in real estate (the corrupt property assessment system in our cities leaves out much of the enormous rise in value), in rural and semi-urban land around infrastructural projects, and in mines and other extractive industries. This will, of course, immediately raise

loud screams from India's rich, but saner elements of the latter will realize that social protection for the poor will ultimately help them as well, particularly since the human capital chains are presently broken without which their business cannot thrive. As we have indicated before, there are many ways equity and efficiency can go together. Of course, the taxing government has to improve its credibility by minimising wasteful social programmes. At the local level if panchayats and municipalities can raise property taxes (assessed may be on area-based non-discretionary rates as is being currently tried in Mumbai, reducing the power of the assessor officials) and if the revenue is earmarked for spending on transparent and time-bound specific local benefit projects (which can be publicly discussed in gram sabhas and ward meetings), the tax-payers may be more willing to contribute.

If social protection has to involve livelihood protection, at some point one has to grapple with the controversial issue of how much of the traditional extremely low-productivity livelihood patterns have to be protected against the onslaught of markets and capitalist development. As the latter has often been identified with dispossession and dislocation of people from their land and despoliation of the local environment, there are now strong movements in India against acquisition of land from farmers and *adivasis* for the purpose of industrial and commercial development and mining. I do not have the space here to go into the details of this important controversy here, I shall only register here a plea for some balance between the need for economic development that creates productive jobs and enhances social surplus (which can potentially be redistributed) on the one hand, and on the other hand the need for minimising (and adequately compensating for) the dislocation by means of a process in which the local stake-holders can be full participants. Use of land and minerals by profit-seeking companies for non-traditional higher-productivity activities is indispensable if we want any change in the miserable way of life that the farmers and *adivasis* have endured for centuries--as the Marxist economist Emmanuel once wrote, the horrors of capitalism fade in comparison with the horrors of pre-capitalism, or as Joan Robinson famously remarked, what is worse than being exploited is not to be exploited at all. There is too much romanticizing of the traditional life among some otherwise well-intentioned activists and too little interest in assessing the complex trade-offs involved. In fact there is a larger social-organizational issue here. Voluntary



groups and NGO's more often than not being essentially single-interest advocacy lobbies lack the mechanism of transactional negotiations and give-and-take among diverse interest groups around those trade-offs that large party organizations representing and encompassing these diverse interests could facilitate. That the existing party organizations lacking in inner-party democracy do a bad job of it does not negate the general point. On the other hand, as we have mentioned before, in the current dispensation the surplus generated in the process of development in these areas is grossly inequitably distributed, much of it grabbed by the corporate oligarchy, real estate tycoons, the mining mafia, and their political patrons and collaborators. There is need for transparent and carefully-monitored auctioning of mining rights among competing companies, and for a substantial annuity paid to the local dispossessed people and for an environmental improvement fund out of the money thus raised and shares of the companies. We have to find a balanced, equitable, and sustainable way of dividing the surplus and minimising the loss (both private and social, including environmental). In this balancing NGO's can play an extremely valuable role in espousing the cause of the deprived, increasing their awareness and information, catalyzing their organizations and acting as watchdogs against the abuses of state and corporate power.

## ***V Social Protection and Democratic Mobilization***

Finally, the big puzzle in Indian democracy is this: the numerically large poor are so assertive at election time, and yet social protection for them continues to be weak, and election after election they select (or fail to punish) leaders who do so little for them in terms of social protection. There may be several factors at play here:

- (i) It is possible that endemic poverty and lack of social protection are widely regarded among common people as a complex phenomenon with multiple causes, and they ascribe only limited responsibility to the government in this matter. The measures of government performance are in any case rather noisy, particularly so in a world of

- illiteracy and low levels of civic organization and formal communication on public issues. A perceived slight in the speech or behaviour of a political leader felt by a particular ethnic group will usually cause much more of an uproar than if the same leader's policy neglect keeps thousands of children severely malnourished in the same ethnic group.
- (ii) The latter suggests that what is more salient than social protection is dignity politics. Of course, in a larger sense social protection should include dignity issues. If electing a low-caste leader, however corrupt, reduces the chances of upper-caste thugs harassing or raping low-caste women, that surely should count as a gain in social protection.
  - (iii) Since the poor usually get mobilized on caste and ethnic lines, the modalities of such mobilization are often multi-dimensional, and poverty alleviation or social protection is only one of the many issues that get articulated in the public domain. Also, the process of such ethnic mobilization is often easy to be hijacked by the elite of these groups, who channel a lion's share of the benefits towards themselves. The intended poor beneficiaries are often unorganized and uninformed about their entitlements, and they also lack the ability to evaluate the quality of the particular education or health service provided.
  - (iv) It is possible that the observed preoccupation in North India with symbolic victories among the emerging lower-caste political groups maybe just a matter of time. The social and political changes have come to North India rather late; in South India, where such changes have taken place several decades back, it may not be a coincidence that there has been a lot more effective performance in the matter of public expenditures on social protection projects like food, health, education, housing and drinking water. This reflects the fact that in South India there has been a long history of social movement against exclusion of lower castes from the public sphere, against their educational deprivation, etc. in a way more sustained and broad-based than in North India. One may also note that the upper caste opposition

to social transformation is somewhat stronger in North India, as demographically upper castes constitute in general a larger percentage of the population than has been the case in most parts of South India. So new political victories of lower castes in North India get celebrated in the form of defiant symbols of social redemption and recognition aimed at solidifying their as yet tentative victories, rather than in committed attempts at changing the economic structure of deprivation.

One major difference between Indian democracy and the Western is that the emphasis here is more on group rights, less on individual rights (which are often crassly violated when there is even a remote chance of some group or other taking offence). One indicator of the emphasis on group rights is that 'reservations' are often the most popular tool of redistribution. Public sector job reservations for some historically disadvantaged groups, for example, fervently catch the public imagination, even though objectively the overwhelming majority of the people in these groups may have no chance of ever landing those jobs, as they and their children largely drop out of school by the fifth grade. Attention is thus directed at symbolic policies, and the patronage benefits are primarily enjoyed by the elite of these groups, deflecting public attention away from the more urgent and difficult challenges of improving the delivery structure of basic social services including education. Reservations often become a surrogate for effective action on the social protection front.

There is scope here for imaginative political leaders building on group solidarities of hitherto subordinate groups to focus political attention on basic social services they are denied, not just in lobbying with higher authorities but in mobilizing group financial and organizational resources for this purpose (including revitalizing the various traditional group-based charitable organizations). The emphasis has to be on group-based social movements that emphasize awareness of their public entitlements, of some judgment and advice on the quality of elementary health care and educational services they receive from village private providers of education and medical care, of the adverse effects of superstition, ignorance and faith-healing (somewhat on the lines of the historically successful peoples' science movement in Kerala), and of basic sanitation, drinking water

purification, personal hygiene and environmental practices that improve their lives. As India becomes more urbanized, the difficulties and costs of such community organizations and social movements should decline compared to those in dispersed rural society. There are already many ward committees, residents' associations, cooperatives and self-help groups, which can try to integrate social insurance as a part of their general activities, at least in negotiating with the authorities, processing paper work, monitoring and social audits of government welfare programmes. In rural areas where livelihoods crucially depend on the management of local environmental resources (forests, fisheries, irrigation, grazing lands), historically community organizations (pani panchayats, water user associations, van panchayats, joint forest management committees, etc.) have been active. There are now many studies that have tried to understand the conditions under which they succeed and when they fail. One should derive the appropriate lessons from this experience. Above all, social protection has to involve the beneficiaries in active participation, away from the current framework of dole-giving from the top by an insensitive, unmotivated and corrupt bureaucracy.

In conclusion, while the discussion on social democracy in Western countries often puts the emphasis on its high costs (particularly in view of the austerities necessitated by intense global competition) and issues of incentives for work and enterprise, in India high inequality, massive poverty and a vast informal sector make the challenge of implementing social democracy extremely daunting as much as it is highly imperative. The particular governance issues in India, with inept, corrupt and unmotivated public officials in charge of the delivery system, make the mobilization of social groups and community organizations and various participatory processes all the more important. But there is a more fundamental issue here that involves the interaction of the productive system and the political culture. As we have mentioned before, European social democracy is the outcome of a class compromise and a social pact: the workers who are electorally powerful enough to expropriate the capitalists and end the capitalist system have chosen not to do so, they have figured out that capitalism is the only viable way left for adequately expanding the pie, so they are prepared to bear some cost ('exploitation') and let the capitalists have a

reasonable share of that pie which induces the latter to keep on their efforts at bringing about dynamic innovations. I am not sure if the Indian electorate has yet been confronted with this social pact, and if so confronted how they'll react.

After the demise of the short-lived Swatantra Party, India has not had a full-scale pro-business conservative party; even the right-wing parties are largely populist on many economic issues when they go to the electorate. In spite of the great flowering of entrepreneurial energies in recent years throughout the country, I believe there is a strong anti-capitalist (particularly anti-big-capital) streak in Indian political culture. This is not surprising in a country where small people (small and middle peasants, self-employed artisans and shopkeepers, bazaar merchants and petty middlemen, clerks, school teachers and service workers) constitute an overwhelming majority of the population, and their ranks are swelled by the inexorable demographic pressure and by the traditional inheritance practices involving subdivision of property. There is a deep suspicion of market competition whereby the larger economic interests, often utilizing their advantages of economies of scale and better political connections, can devour the small. Gandhiji had given sensitive and eloquent expression to this anti-market, anti-big-capital, small-is-beautiful populism and mobilized it in the freedom movement against the British. In recent decades those bearing the legacy of the Gandhian moral critique of market expansion and competition have joined forces with those espousing the left critique of capitalist exploitation of workers, peasants, and other small people and their rights over natural resources, in building active grassroots movements in much of the country for the protection of the environment and of the traditional livelihood of the indigenous people, against the depredations of the capitalist oligarchy. Even though the private corporate sector is thriving in India and in some sense its 'hegemony' looks more pervasive today than before, it is involved in the work life of too few people (as it directly employs only about 2 per cent of the Indian work force), and it is not clear that the electorate is still ready to accept the class compromise like the one behind the social democracy enterprise in the West. On the other hand, the populist opposition, for all their strength in numbers, have not yet succeeded in pointing to any viable, incentive-compatible (i.e. not entirely

dependent on revolutionary or moral zeal for sustenance), systemic economic alternative, outside the esoteric confines of their wishful thinking or utopian anarcho-communitarianism. The passionate intensity of their negative critique of capitalism is not matched by a convincing demonstration of a sustained positive alternative system that can generate the necessary surplus. Until this tension is resolved, the social democracy project in India will remain somewhat tentative.