

# IMPROVING THE CAPABILITY OF THE INDIAN STATE

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To enjoy additional benefits

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December 02, 2023 12:16 am | Updated 08:16 am IST

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'There is an extreme concentration of policymaking and implementation powers within departments' | Photo Credit: The Hindu

The Indian state is a paradox of too big and yet too small. Try setting up a business or building a house in an urban area, and you will quickly realise how the thicket of the licences, permits, clearances, and permissions can make life impossible. Even as an ordinary citizen, one can never be sure to be on the right side of the law and the circuitous regulations.

At the same time, the Weberian state in India is too small. In the G-20 group, the country has the smallest number of civil servants per capita. The public sector share in total employment in India (at 5.77%) is half the corresponding figures for Indonesia and China, and just about a third of that in the United Kingdom. With approximately 1,600 per million, the number of central government personnel in India pales in comparison to 7,500 in the United States. Similarly, the per capita number of doctors, teachers, town planners, police, judges, firefighters, inspectors for food and drugs, and regulators is the lowest even among countries at a similar stage of development.

The Indian state is relatively small on the other metrics, such as the tax-GDP ratio and public expenditure-GDP ratio. Be it public goods provisions, welfare payments, or the justice system, it is a story of scarcity rather than surplus. Due to an inadequate state capability, governments at the Centre and States end up outsourcing services that are better provided by the public sector, such as primary health.

The proponents of inclusive development rightly pitch for a bigger role for the state — increased public spending on health, education, social security and a larger officialdom to go with it. Their detractors, on the other hand, cite innumerable policy failures to argue for a smaller state. The unwieldy state's performance, they contend, is disappointing on all fronts be it students' learning outcomes, child and maternal mortalities, farm and firm productivity, traffic conditions, and crime rates, among others.

Both sides to the debate are missing something fundamental. True, the Indian state is 'people-thin' but 'process-thick'. The main problem, however, is the perverse incentives created by public institutions and the skill gap among officials. These factors have eroded the ability of the political executive and civil services to make and implement sound policies. A recent book, *State Capability in India*, by T. V. Somanathan and Gulzar Natarajan, two Indian Administrative

Service (IAS) officers, suggests various measures to improve things without fiscal and political consequences.

For instance, there is an extreme concentration of policymaking and implementation powers within departments. Experiences of countries such as Australia, Malaysia and the United Kingdom show that separating policymaking and implementation responsibilities expedites execution and encourages innovations, making the programmes better suited to local contexts. The Indian case in point is the National Highways Authority of India, which is tasked with executing national highway projects, while policy decisions are made at the ministry level. This arrangement has drastically reduced delays and cost overruns.

Moreover, restrictions on the frontline personnel to decide on implementation-related issues foster a culture of mistrust and lack of accountability for poor implementation. The vicious cycle wherein poor delegation and a deficient state capability feed each other can be broken by delegating financial and administrative powers to the frontline functionaries, with clearly defined processes for using them.

The top policymakers exhibit a lack of technocratic skills to govern an increasingly complex economy. In the absence of adequate capability to deal with economic, financial, contract and other technical matters, the Centre and the States hire consultancy firms. According to media reports, the central government paid over 500 crore in the last five years to outsource crucial tasks to the big five consultancy firms, i.e., PricewaterhouseCoopers, Deloitte, Ernst & Young, the KPMG and McKinsey.

An institutionalised and regular lateral entry at the mid and senior levels can help fill the civil services' size and technocratic gap. Qualified officers in non-IAS services (such as the Indian Revenue, Economic and Statistical Services) should get a fair shot at high-level positions if they have the talent and the expertise required. Civil servants at different levels can be provided subject-specific training under Mission Karmayogi (National Programme for Civil Services Capacity Building).

Similarly, there is a need to augment the strength of professional staff with market watchdogs, the Securities and Exchange Board of India, and the Reserve Bank of India (RBI). The first has just about 800 professionals, whereas its counterpart in the U.S., the U.S. Securities and Exchange Commission, has more than 4,500 experts to govern the corporates. Similarly, the professional staff strength of the RBI, less than 7,000, is tiny when compared to the US Federal Reserve which is assisted by 22,000 odd professionals.

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Yet another problem is the narrowly scoped audits by the Comptroller and Auditor General of India. It encourages the finance and administrative divisions in government to focus on compliance with rules rather than policy objectives. The tendency of the other oversight agencies, i.e., the Central Vigilance Commission, the Central Bureau of Investigation and courts to use hindsight information without appreciating the context has made the bureaucrats averse to exercising discretion in policy matters. Officials prefer to cancel big contracts even when granting extensions would be better. The net outcome is delayed procurement of goods and services and unnecessary contractual disputes. Appealing against arbitration and court awards have become the default mode by officials, making the government the biggest litigator. To fix this, the oversight agencies must be sensitised to appreciate the context of policy decisions. They should factor in the costs associated with the actual decisions as well as their alternatives.

The political will is required to address other issues, such as the appointment of retired officers to regulatory bodies and tribunals. The beneficiaries of such appointments enjoy hefty salaries without compromising the pensionary benefits from past services. This makes civil servants susceptible to political manipulation and influences their in-service decisions. The problem can be fixed by increasing the retirement age to say 65, and making an absolute upper limit for all appointments.

The political economy of the public sector also undermines its efficacy. It is well known that performance-linked pay and incentive schemes such as bonuses, which work well in the private sector, are not very effective in the public sector. The public sector must attract intrinsically motivated individuals to contribute to the social good. Paradoxically, the relatively high salaries in the public sector reduce its effectiveness. Because of job security and better working conditions, the risk and skill-adjusted pay in the public sector should be lower than what it is in the private sector. In India, however, the opposite is true due to the substantial salary hikes by the 6th Pay and the 7th Pay Commissions. Except at the top, for most of the skill spectrum, public sector salaries are much higher than private wages. It breeds corruption in appointments as it makes government jobs very lucrative for all, socially driven or not.

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The solution lies in moderate pay raises by the future Pay Commission and a reduction in the upper age limit for government jobs. Moreover, high economic growth that throws up many lucrative jobs in the private sector will make government jobs less appealing for those who are money minded. Put together, these measures can reduce corruption and increase the chances of socially-driven individuals joining the government.

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