‘COMMENTARAO’ IN “THE TELEGRAPH” OF FEBRUARY 4 2013

“A Race to the Future-India is losing the Race” by S L Rao

In a recent article in the New York Times Steven Rattner compares the Indian and Chinese economies and shows that on all economic parameters, India has lagged far behind China. He says “China has lunged into the 21st century, while India is still lurching toward it…While China often seems to eradicate its past as it single-mindedly constructs its future, India nibbles more judiciously at its complex history…(A)after years of rocketing growth, China’s gross domestic product per capita of $9,146 is more than twice India’s. And its economy grew by 7.7 percent in 2012, while India expanded at a (hardly shabby) 5.3 percent rate.” In GDP per capita, its annual growth, inflation, investment as a portion of GDP, unemployment, budget deficit and current account in the balance of payments, China is far ahead of India.

China has 16 subway systems to India’s 5. China is building a superhighway in the high altitudes of Tibet. Indian roads even on the plains are fewer and badly kept. India’s electricity grid experiences frequent shortages and blackouts.

“India’s rigid social structure limits intergenerational economic mobility and fosters acceptance of vast wealth disparities.” But rapid urbanization, massive migration from rural areas, a youthful population, growing literacy and new skills, massive penetration of mobile telephony everywhere, of the internet and social media in urban India dilute the adverse effects of caste and social structure. They do co-exist with more than half the urban population living in slums, often devoid of electricity or running water and monstrous inequalities.

Rattner blames India’s failing in the race with China on India’s social structure and base in tradition. China’s totalitarian regimes have prevented it being held up by public opinion. China’s relatively unitary culture, and a respect developed over centuries, for authority, make for better implementation of decisions in China. China has diversity but not on the scale of India with its many languages, races, religions and castes.

These differences also strengthen India, not weaken it. India’s famed democracy, its ability to hold increasingly free and fair elections on a mammoth scale, and the docile handing over of power by one elected government to the next, have reinforced people’s faith in democracy. India’s ability to move speedily in tackling crises-earthquakes, tsunamis, is legendary. So is the ability to organize mega events like the kumbh mela. This requires building every 12 years, a megacity larger than many large cities together, with roads, sanitation, safe drinking water, etc. The ability to settle most arguments by discussion and compromise is a strength. An orientation towards languages and mathematics has made India an information technology superpower. Strong family orientation and values ensure that families stay together and look after their weak and vulnerable. But India has not reached its potential.

Abysmal infrastructure, poor maintenance of roads, buildings, etc, inordinate time taken to complete infrastructure projects, a difficult country to start a new business, are glaring differences from China. Capital is more expensive. Employing labour in industry is subject to many controls. It is difficult to start labour-intensive industries, and almost impossible to close weak or dying industries. Bankruptcy laws do not permit a quick restructuring of industries. There is no provision, as in the USA, for a Section 11 of the bankruptcy code.

Indian tax laws are archaic and unfair. For example raw materials )products like pvc or tyre) are subject to higher import duties than the finished products. Without a GST (goods and services tax) and uniform tax rates in each state, it is easier for foreign competitors who pay only standard import duties versus domestic industries that pay differential taxes in each state.

Corruption is endemic and has increased with liberalization of the economy. All natural resources are under state ownership or control. With economic growth, natural resources (land, spectrum for telecommunications, coal, iron ore, other minerals, water, electricity, etc) are in increasing demand. Their allocations by government agencies require bribes to be paid to politicians and bureaucrats. Black money, i.e., untaxed incomes, accounts for perhaps 50% of GDP and is interspersed through it. Government loses the tax revenue.

As a major investor in the economy, government is into massive road construction, building of flyovers and metro rail in cities, housing for the poor, slum clearance, garbage removal, etc. These require large government expenditures and construction contracts. These are also a source for corruption.

Economic development has been accompanied by large social expenditures for the benefit of the poor, on livelihoods, health services, education, etc. These expenditures experience large-scale thefts by government employees as benefits are distributed to non-existent beneficiaries, or only partially to beneficiaries.

China is also known for massive corruption. But the government’s schemes are implemented to a large extent, and quickly. It is not in India. Jobs in Indian governments (teachers, recruits to army, police, etc) at times require payments to recruiters. Government certified documents also are given for an extra price to the issuer. Corruption in India slows the system. It does not speed it.

The Indian civilian administration has little or no individual accountability. Collective responsibility holds no individual responsible for poor delivery. In most of India the police are avoided by citizens because there is harassment at their hands. Women and the poor are particularly vulnerable.

India, unlike China, has regular and bitterly fought elections whose cost has been escalating. These are held for the national Parliament, state legislatures, municipal bodies in urban India and local bodies in villages. The cost of fighting an election is high. Money, mostly unaccounted and untaxed cash, is spent much in excess of limits on publicity, bribes to leaders who can deliver blocs of votes and to individual voters themselves. While the Election Commission tries bravely to prevent these excessive expenditures, they are only marginally effective. This expenditure has to be recouped by the winning candidates by using their positions in governments as elected representatives. They sell government owned resources, contracts or permissions and are paid in “black” money.

Thus it is not social structure and caste that alone or even mainly, are responsible for holding India behind China. It is the poor governance and lack of accountability of government officials. In China the government bureaucracy is overseen by a parallel party bureaucracy who is more powerful. While party officials might take extra benefits, party oversight also ensures that the government is accountable for performance and follows party directives. Provincial and local governments have greater financial clout and are able to take decisions at lower levels. There is better supervision of government officials than there is in India.

The Administrative Reforms Commissions and the various Police Commissions have made many recommendations for administrative and police reform, as has the Verma Committee this month. So have the judicial reforms commissions for improving the appointment, speed and performance of the judiciary. The political and bureaucratic system has a vested interest in the status quo and has stalled all such reforms. The status quo enables them to accumulate undreamt of wealth. This prevents fundamental change in governance in India, an imperative for faster and more equitable growth.

India has fallen far behind China on almost all economic and human development indicators. It is unlikely to catch up unless there is a revolution in governance. (1218)