Challenges for a Minimum Social Democracy in India

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While the discussion on social democracy in western countries often puts the emphasis on its high costs 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.

More than six decades after the establishment of the Indian Republic (which is constitutionally declared as "socialist"), even the barest minimum social protection remains unavailable for its masses of people. In this article we shall discuss some of the special challenges that India faces and the different approaches to tackling them that have been mooted in the public arena.

Even in western social democracies the large social protection programmes for workers are suffering from stresses and strains, particularly from the point of view of fiscal stringency, anxieties of global competitiveness and shifts in political attitudes towards immigrant recipients of benefits. In India where inequality and mass poverty are large, there are doubts about the fiscal feasibility of even the barest minimum programmes and about the large-scale wastes and thefts such programmes often involve.

In addition the vast informal sector (larger than in most major developing countries: even outside agriculture more than 80% of Indian workers work informally) implies special difficulties and costs of administering such programmes.

Rights-Based Approach

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 recognise 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. The 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 subsidised 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 National Rural Employment Guarantee Scheme (NREGS), the largest of its kind anywhere in the world, for all its flaws (which would have been far less if a regular and institutionalised system of independent social audits were in place – only Andhra Pradesh government has institutionalised them), provides a possible fallback 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). This may have already exerted some positive indirect effects on the rural wage earned by the poorest people.

Job vs Economic Security
This is, of course, quite different from the right to a job often demanded by organised workers in the formal sector. The right to a 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 organised 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 forefront a particular conflict among workers which organised trade unions would rather ignore. 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 that 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 organisational muscle-flexing paralyse city life and rob the daily informal workers and street vendors of their subsistence). Besides, the strongest organised 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 POS for food generates less malfeasance when it is universal (as in Tamil Nadu and Chhattisgarh); 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.

Universal Basic Income
On the 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 19th century, tried unsuccessfully in McGovern’s 1968 presidential campaign in the US 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 it 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 us 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 five members). This amounts to Rs 1,20,000 crore (not counting administrative costs, which need not be large, with electronic systems 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 POS for food generates less malfeasance when it is universal (as in Tamil Nadu and Chhattisgarh); 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.

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help). Let us assume, for the time being, that with the forthcoming installation of the electronic Unique Identification (UID) system the administrative costs of this unconditional transfer programme will be minimal. Let us now compare this sum of Rs 1,20,000 crore with some benchmark figures. The total estimates of how much is currently spent by the government on all the anti-poverty programmes together 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% 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% of GDP in total subsidies, roughly two-thirds have been estimated to be non-merit subsidies: that comes to about 9% of GDP. Let us make a conservative estimate and bring this figure down to 6% of GDP as going to the relatively rich. In 2009-10 the annual GDP of India was about Rs 4,5,00,000 crore (at 2004-05 prices); 6% of this comes to Rs 2,70,000 crore. So what the government pays out as subsidies every year to the relatively rich is more than double the amount it will need to pay out a basic income supplement of Rs 5,000 to each family, rich or poor.

In other words, if one can somehow halve the existing subsidies to the relatively rich, that will be more than enough to cover the basic income supplement for everybody. And if this replaces some of the existing dysfunctional programmes (like PDS) or not very effective cash transfer programmes (like the Swarnajayanti Gram Swarojgar Yojana or the Indira Awas Yojana), the income supplement can be even larger (or the reduction in the subsidies to the rich may be smaller). 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 UID? If the money is electronically 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 would issue the withdrawn money demanding bribes, or local musclemen regularly extorting some of the cash from the defenceless recipient (like thieves in many countries taking their victims to the ATM machines and forcing withdrawals). Of course, when PDS gives a poor man subsidised 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 minimise 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. But there are problems of intra-household dynamics. 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.

Conditional Cash Transfers

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 such class of programmes is that of conditional cash transfers, with the added weapon of UID. In some sense the NREGS 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. UID 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,
impassion centres, 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. It will require some time for the supplies (private as well as public) of these services to be induced by increased demand and a great deal of regulations to ensure minimum quality. 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 late 2010 and early 2011) for lack of public warehousing space.

Governance and Social Services

The main bottleneck in the delivery of social services in India is, of course, in the governance mechanism and the incentive systems in operation. There are very few performance incentives in the reward structure for officials. Promotion is largely 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 multidimensional. This promotes a rampant culture of impunity. The schoolteachers and doctors and nurses, for example, 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 decentralisation 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, it immediately led to a significant improvement in services. But in most parts of India, while local elections are now regularly held, effective decentralisation 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 recognised 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.

Health Services

The other incentive and structural problems in governance in social services may be illustrated from the health sector (qualitatively some similar issues arise also in education or nutrition programmes). At the moment healthcare in India is primarily private (and largely unregulated). Household survey data suggest that 85% of all visits for healthcare 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 organised “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 multidimensional where specific grievances about any particular public service provider get diluted, often by larger statewide issues. In addition, compared to curative medical services, the Indian

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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 – Rashtriya Swasthya Bima Yojana – that is supposed to cover up to Rs 30,000 for only hospitalisation-related expenses for BPL families) is that the poor in most cases go for hospitalisation 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 healthcare insurance so costly.

Outside of government or private provision of health services there can be other alternatives. Several NGOs 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 healthcare from an external provider. Self-Employed Women’s Association in Gujarat is an important example of organising 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 programmes worker associations played a leading role. In India where the informal sector is much larger, small-scale associations need to be mobilised for social insurance, the NGOs 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.

**Conclusion**

In conclusion, while the discussion on social democracy in western countries often puts the emphasis on its high costs (particularly in view of the austerity 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 mobilisation of social groups and community organisations 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 at 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 will 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, schoolteachers 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 utilising their advantages of economies of scale, deeper pockets and better political connections, can devour the small. Gandhi had given sensitive and eloquent expression to this anti-market, anti-big-capital, small-is-beautiful populism and mobilised 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 grass roots movements in parts 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 not more than 2% 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 on a scale large enough to generate the necessary surplus. Until this tension is resolved, the social democracy project in India will remain somewhat tentative. Under the circumstances the great danger for the social-democratic striving is that it may dissipate itself in various costly and in the long run harmful populist schemes, utilised by the political process for narrow patronage distribution goals.