India @75:
Challenges & Opportunities

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Agenda

• Why India Matters (in a global context)?

• Taking Stock of India@75

• Key Themes in Understanding India

• Challenges & Opportunities
Why India Matters?

- Most populous country in the world: 1.4 Billion people (> 1/6 of humanity)!
- Third largest economy in the world (in PPP terms)
- Fastest growing large economy in the world
- But still has among the largest absolute number of people in poverty
- Largest democracy in the world
- One of the most diverse countries in the world
- Increasingly integrated in global supply chains
- Growing producer and consumer of both private goods and services
- Same for global public goods – security, disease control, climate
- India therefore matters both intrinsically in its own right, and instrumentally for the welfare of the entire world
Top 10 Countries in the World by GDP (PPP Exchange Rates)

GDP in PPP terms (billion USD)

Source: IMF, World Economic Outlook, 2023
Data Year: 2022
Top 10 Countries in the World by GDP (Market Exchange Rates)

Source: IMF, World Economic Outlook, 2023
Data Year: 2022
GDP per capita Comparisons

Source: IMF, World Economic Outlook, 2023
Data Year: 2022
GDP Growth Rates

Real GDP Growth Rate

Source: IMF, World Economic Outlook, 2023
Data Year: 2022
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India @ 75 – The good news

• The political project that is modern India has been an astounding success
  • Many experts thought in 1947 that India was unlikely to stay united
  • Enormous diversity across religion, region, language, caste
  • The establishing and enduring of electoral democracy is also a signature success

• Similar success on the economic front (especially since 1980s and esp. 1990s)
  • Annual growth in GDP/capita of 4.6% since 1980s
  • Poverty rate has fallen from 70% in 1947 to 21% in 2011
  • Highly dynamic private sector and tech-driven innovation

• The Indian state is also impressive in many ways
  • Successfully conducts the world’s largest elections, censuses, and vaccination campaigns;
  • Top class disaster relief operations and successfully manages hugely complex logistical tasks

• The combination of size, growth, and democracy makes India an increasingly important global player on several issues as well
India @ 75 – The less good news

• Education
  • School enrolment rates over 95%, but abysmal learning outcomes
  • Over 50% of 5th grade students in rural India cannot read at a second grade level
  • Large-scale flight to private schools (market share ~30% in rural, ~50% in urban areas)

• Health & nutrition
  • Largest number of malnourished and stunted children in the world (over 60M <5)
  • Over 70% of primary healthcare visits are to private providers despite existence of a “free” public health system; majority of private providers have no formal qualifications
  • India has 13 out of the 15 most polluted cities in the world (air)

• Police & Public Safety
  • The police are understaffed, undertrained, underequipped, and over worked
  • Police are often not even able to reach a crime scene on time
  • Only 10-15% of crimes are estimated to even be reported

• Courts and Justice
  • The Indian court system has an accumulated backlog of over 30 million cases
  • This increases by a few million each year
  • The Indian state in “mission mode” versus regular daily functioning
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Socialist Legacy

- Strong socialist legacy of India’s first-generation leadership
  - Historical experience of colonialism closely linked to “free trade”
  - Dominant intellectual paradigm in post WW II era was one of “state led” development

- Several sub-optimal policy choices
  - License permit Raj
  - SSI reservations

- Reforms of the 90’s were by stealth and ‘under pressure’
  - Unleashed economic growth, but popular democratic case for reforms have not been made
  - Governments primarily associated with market reforms did not get reelected!
  - Skewed distribution of India’s growth (driven by skill-intensive exports)
Democracy before Development

• Unique experiment in human history
  - No currently developed/industrialized county had ever democratized so early in its development
  - India is a massive outlier in this regard (and a genuine miracle)

• But creates a set of pressures that we have no precedent for in history

• In particular, the trade off between allocating public funds for “public goods” and “redistribution” tends to be skewed towards the latter

• Much easier to win votes on redistribution than longer-term development

• Problem is not welfare spending per se, but rather the poor quality of welfare spending

• Indians are (justifiably) proud of their democracy, but it imposes a unique set of challenges
  - Interesting contrast with China on sources of legitimacy
Weak State Capacity

• The governance machinery is quite weak at routine service delivery
  - Data, personnel, quality of public spending

• Colonial state was only built to do 2 things
  - Law & order
  - Revenue collection

• Democratic India has added several expectations on the state, but without adequate investment in the capacity of the state to deliver
  - The Indian state does a good job in “mission mode”, and a decent job on things that are measured
  - But fails badly in routine operational quality (education, health are the most egregious examples)
Strong Private Sector and Civil Society

• The weakness of the state is offset (to some extent) by an active private sector and civil-society

• India is a world-leader in “frugal innovation” in many sectors
  - Healthcare
  - Consumer products

• Vibrant civil society (education)

• But the failure of public good provision (law and order; environment; education; health) is still a big drag on India’s potential

• India is home to striking contradictions

• “Everything that is true about India, the opposite is also true”
  - Education, health, IT services
  - Also reflects high inequality
  - Seen in the range of books on India
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Big Picture: Growth vs Development (Bhagwati-Sen) Debate
Shifting of the Preston Curve (1 of 2)

Scatter-diagram of relations between life expectancy at birth ($e_x^0$) and national income per head for nations in the 1900s, 1930s, and 1960s.

National income per head, 1963 U.S. dollars.
Shifting of the Preston Curve (2 of 2)
Shifting the Preston Curve for governance more broadly?

• What do today’s developing countries (including India) have that today’s OECD countries did not have, at the same level of historic per capita income – that can improve quality of expenditure?

• Much better data and evidence on quality of expenditure

• Much better technology to empower people, and to improve the quality of governance and public expenditure

• Education example:
  • Many very expensive policies and programs have little to no impact
  • Other much less expensive interventions have been found to be highly effective
  • Importance of research & evidence in public spending (no market test)
  • Technology can sharply shift feasible set of options for both pedagogy and governance
Mismatch between grade levels and actual achievement
Learning deficits and within-grade dispersion in achievement

Math Scores

Hindi Scores

Note: Each dot represents 10 students

Linear fit  Line of equality
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Thank you