

India @75: Challenges & Opportunities

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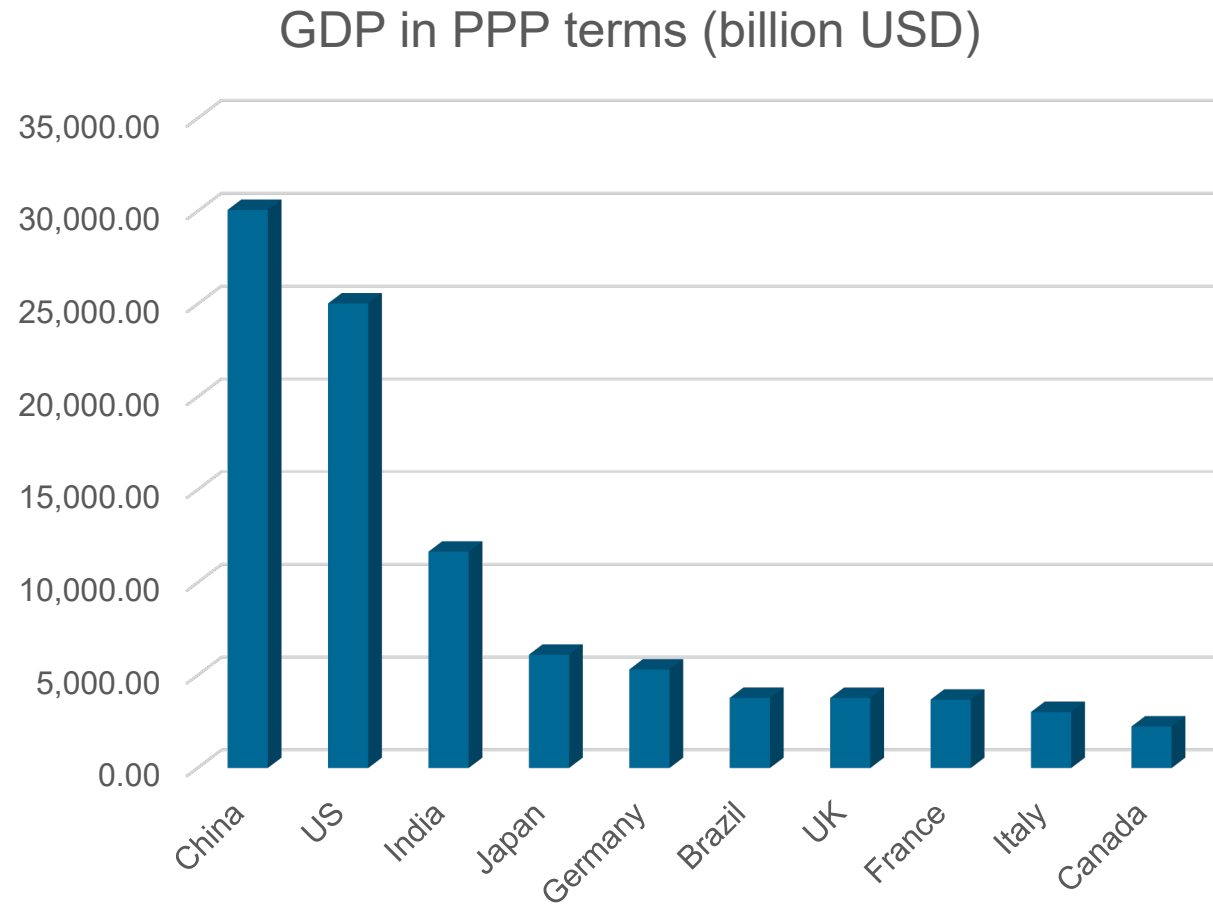
Agenda

- **Why India Matters (in a global context)?**
- Taking Stock of India@75
- Key Themes in Understanding India
- Challenges & Opportunities

Why India Matters?

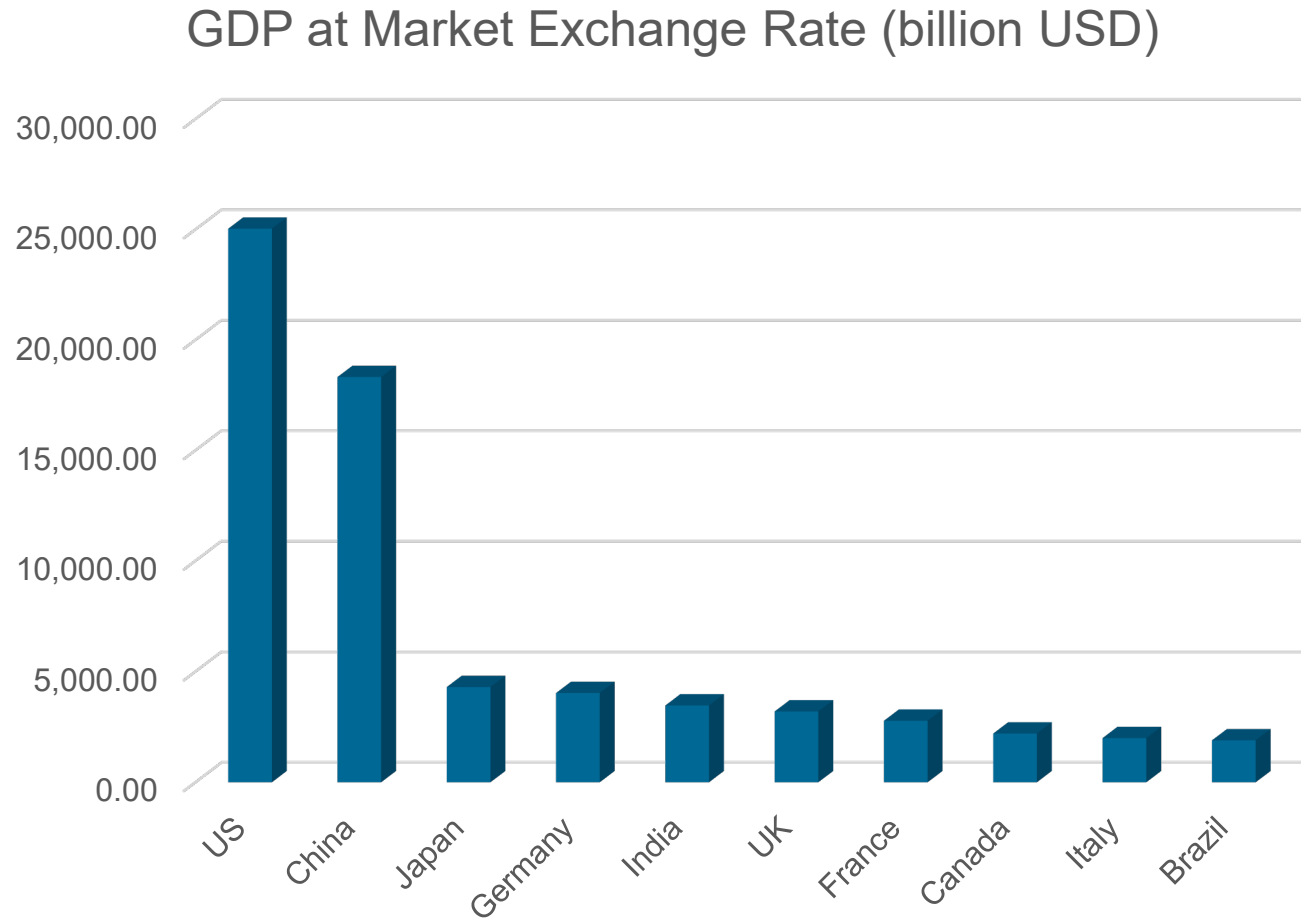
- Most populous country in the world: 1.4 Billion people (> 1/6 of humanity)!
- Third largest economy in the world (in PPP terms)
- Fastest growing large economy in the world
- But still has among the largest absolute number of people in poverty
- Largest democracy in the world
- One of the most diverse 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)



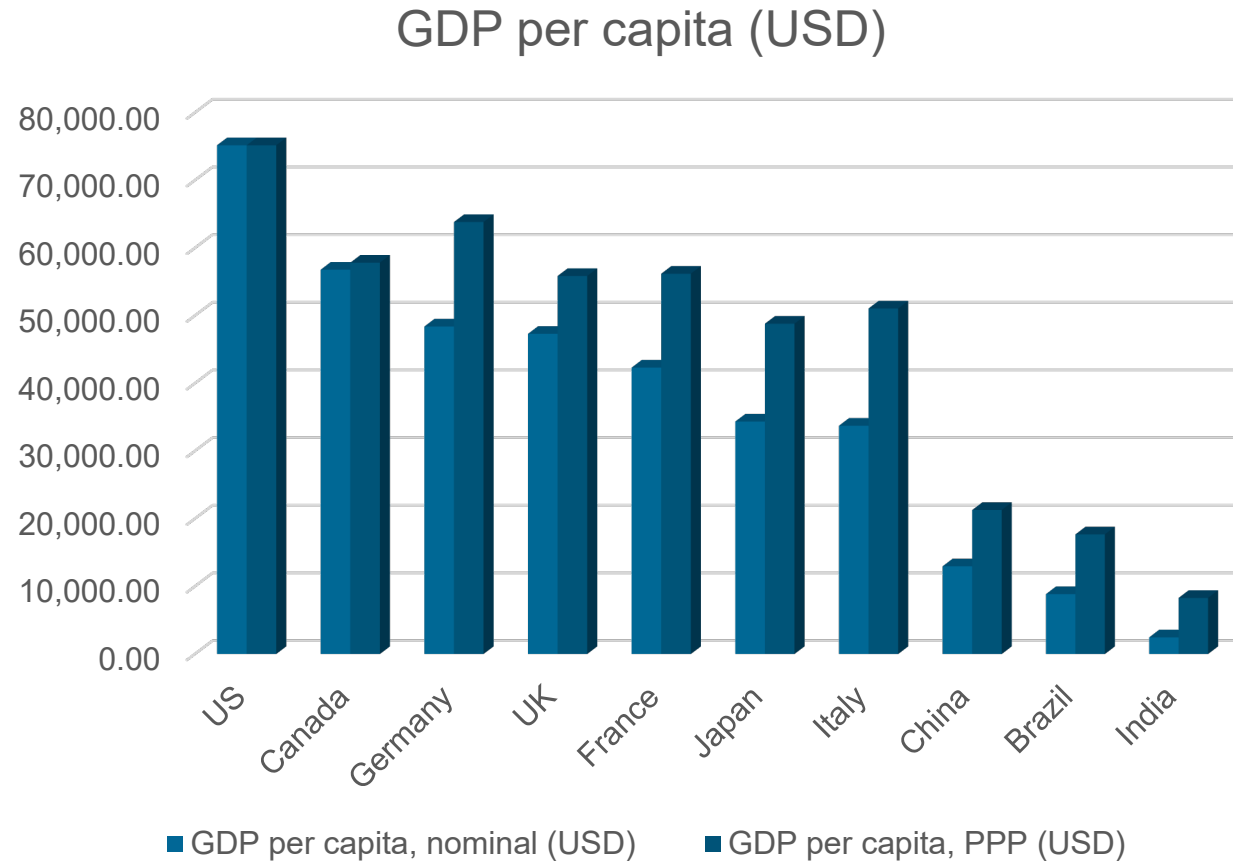
Source: IMF, World Economic Outlook, 2023
Data Year: 2022

Top 10 Countries in the World by GDP (Market Exchange Rates)



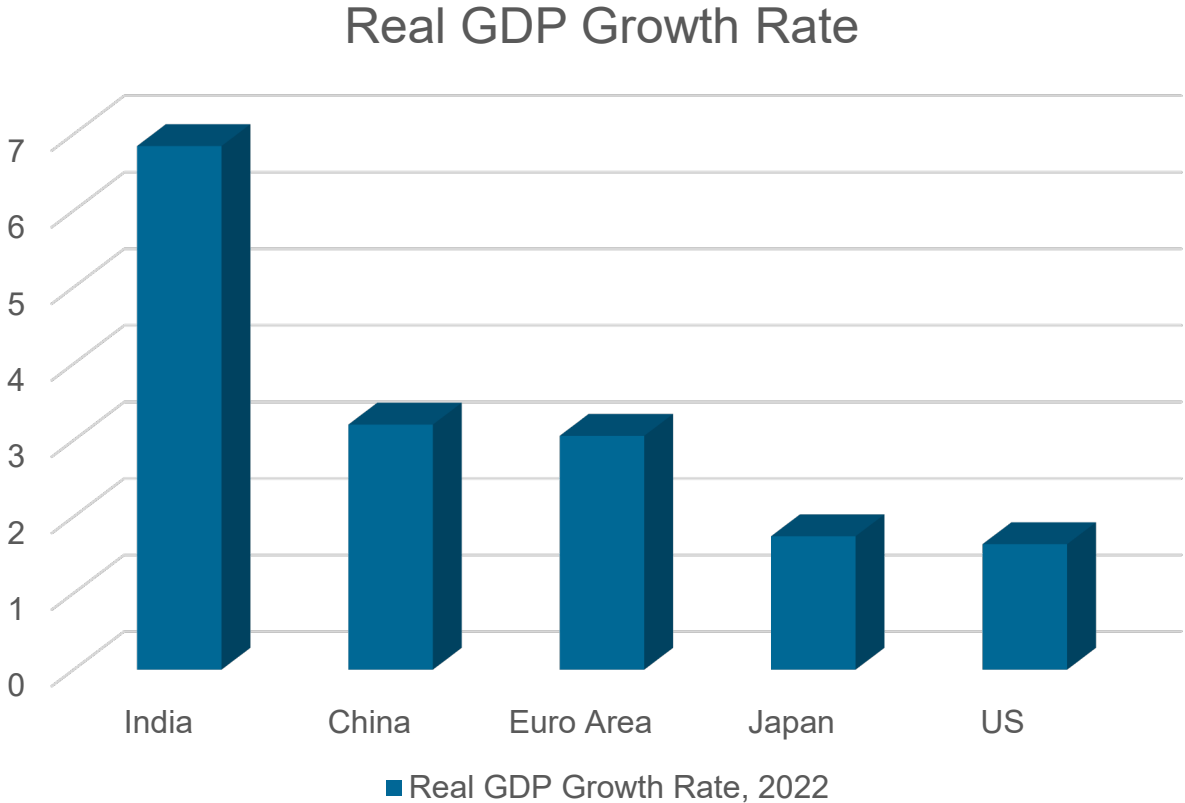
Source: IMF, World Economic Outlook, 2023
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GDP per capita Comparisons



Source: IMF, World Economic Outlook, 2023
Data Year: 2022

GDP Growth Rates



Source: IMF, World Economic Outlook, 2023
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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
- Distrust of markets and trade
 - 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 country 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
- Reflects chronic underinvestment in the state itself
 - 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)

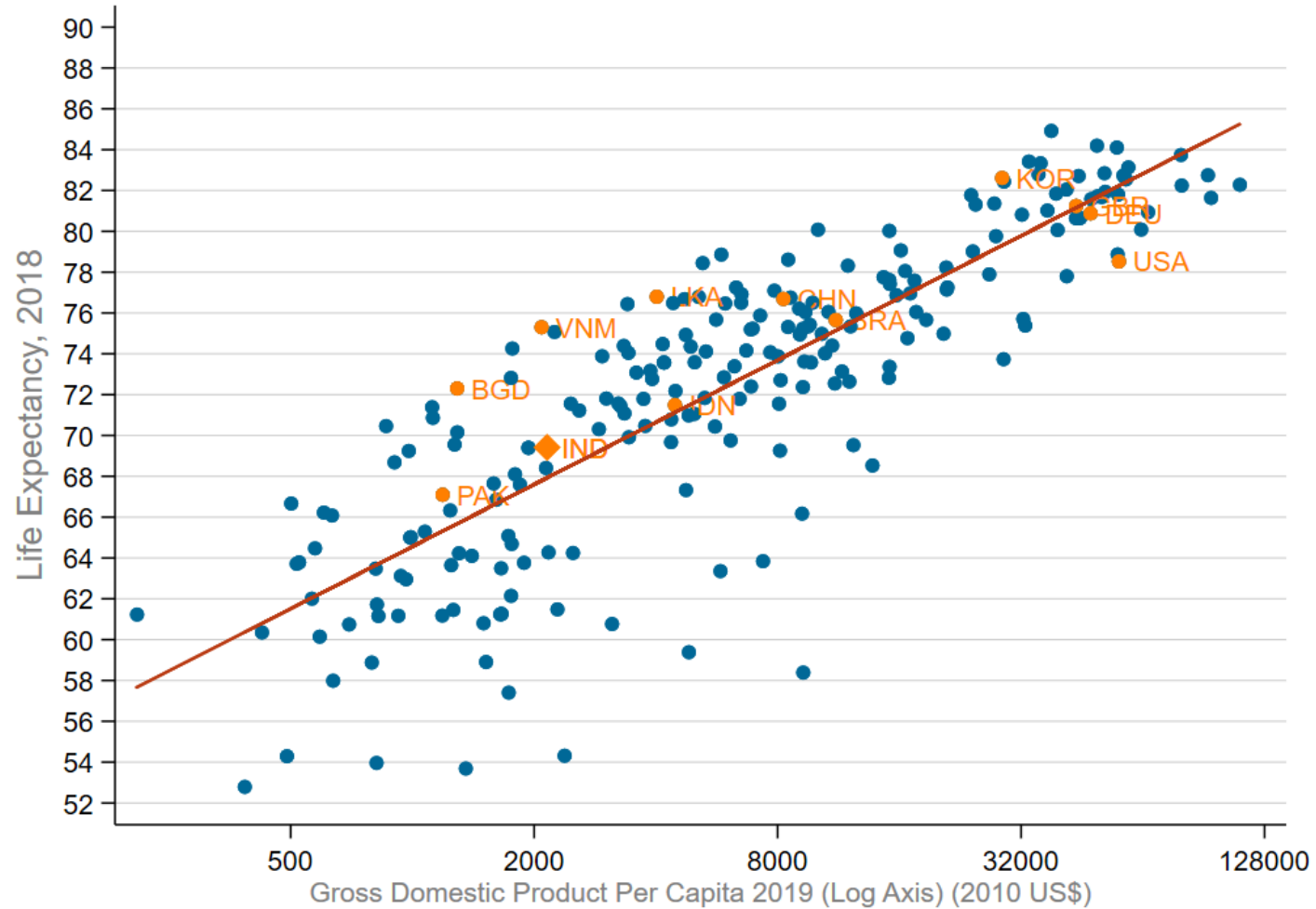
Strong Private Sector and Civil Society

- 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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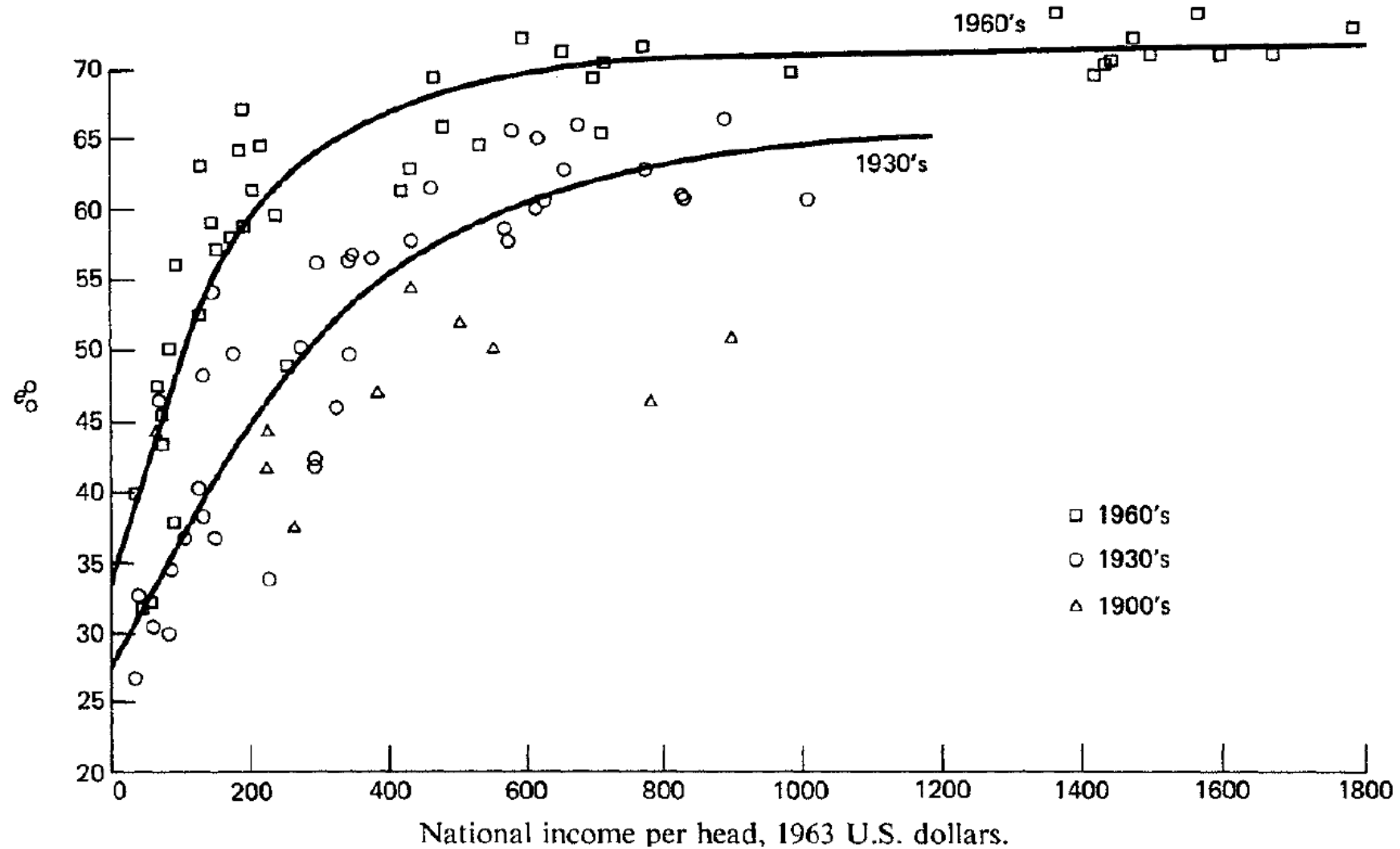
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Big Picture: Growth vs Development (Bhagwati-Sen) Debate

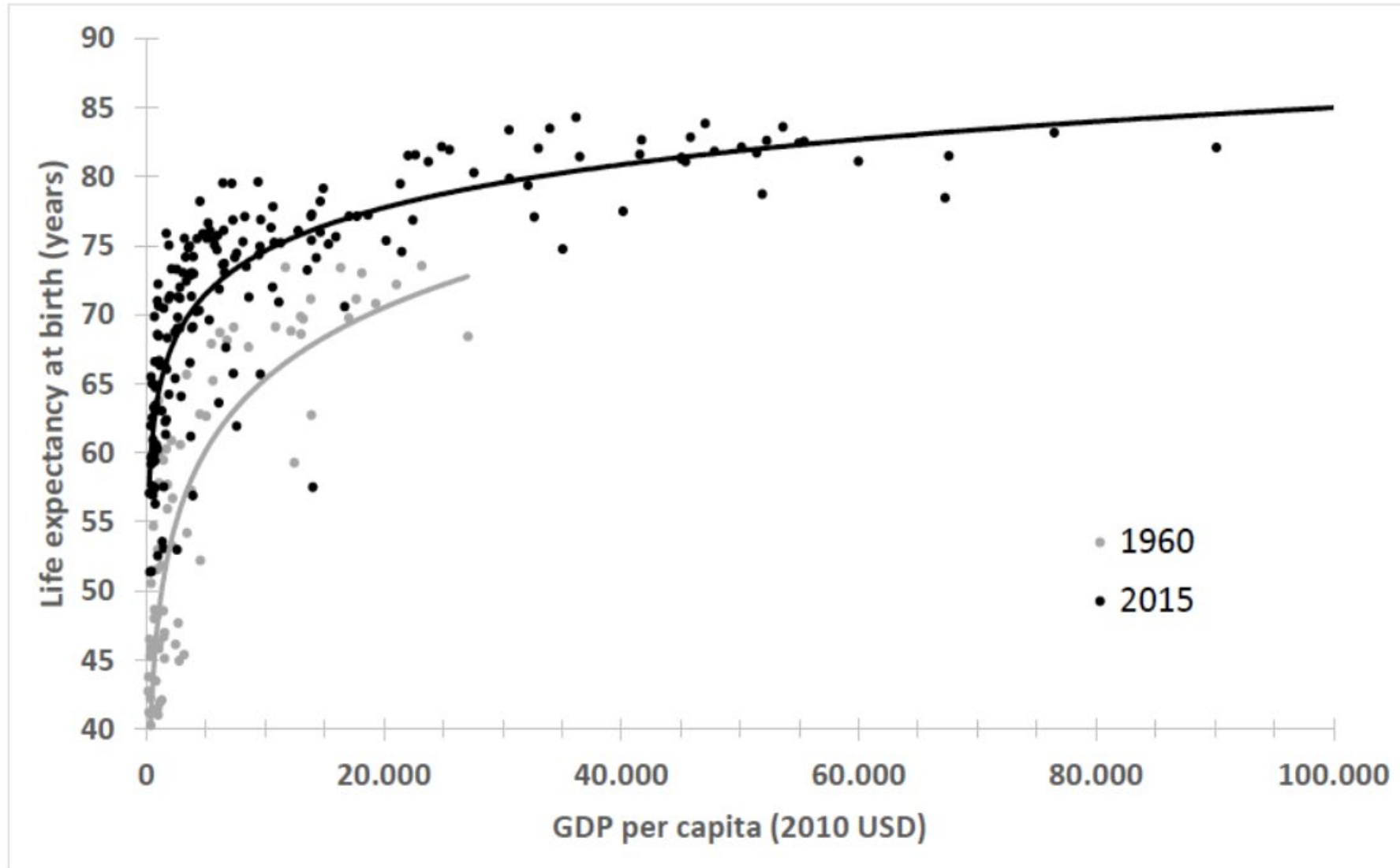


Shifting of the Preston Curve (1 of 2)

Scatter-diagram of relations between life expectancy at birth (e_0°) and national income per head for nations in the 1900s, 1930s, and 1960s.



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

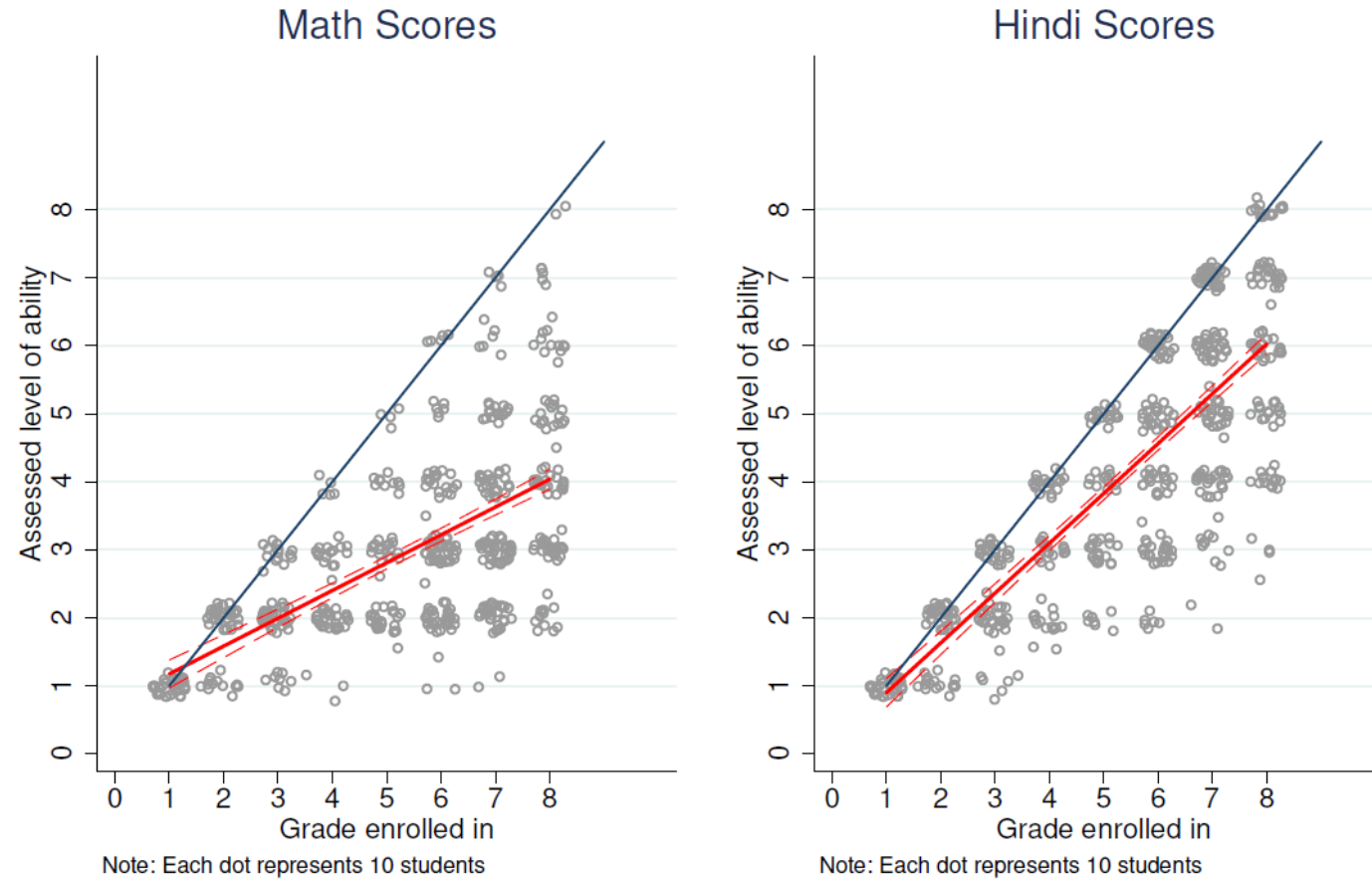


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Acknowledgments

Thank you