

AGENDA FOR REFORM: RURAL, SOCIAL & INSTITUTIONAL

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RURAL, SOCIAL & INSTITUTIONAL**

by

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TABLE OF CONTENTS

	Page No.
I. OVERVIEW	1
A. Introduction	1
B. Goals and Objectives	1
C. Means	2
II. INDIA IN GLOBAL PERSPECTIVE	3
A. India's Position	3
III. SECOND PHASE OF REFORM	6
A. EMPLOYMENT, ENTITLEMENT & EMPOWERMENT	6
1 SOCIAL WELFARE	6
a) Hunger	6
b) Old and Disabled	6
2 HUMAN DEVELOPMENT	6
a) Public Health	7
b) Child Labour	8
c) Education	8
3 POPULATION CONTROL: Environmental Sustainability	9
4 EMPLOYMENT GENERATION	9
a) Labour Flexibility & Employment Growth	10
b) Employment Guarantee Scheme	10
5 POWER OF INFORMATION	10
a) Freedom of Information Act	10
b) Internet Telephony	11
6 De-CENTRALISATION	12
a) Multi-state Co-operative Act	12
b) Decentralisation to Panchayats	12
c) Land Reform	12
d) Self Help Groups	13
e) Forests	13
B. RE-FOCUSING GOVERNMENT	13
1 SUBSIDIES	13
a) Fertiliser Retention Price System	14
b) Public Distribution System	14
c) Petroleum APM	15
2 USER CHARGES	15
3 QUALITY OF GOVERNANCE	16
4 EXPENDITURE PRIORITY	17
a) Human Development	17
b) Rule of Law	17
c) Public order	18
C. LABOUR AND EMPLOYMENT	19
1 Labour Laws	19
2 Safety Net Improvement	21
3 Pension & Provident funds	22
4 Child labour	22
5 Unorganised Workers	23

D.	AGRICULTURE & ALLIED SECTORS	23
1	Rural Land Reform	23
2	Food Act & Food Regulatory Agency	25
3	Sugar	25
4	Transport & Storage	26
5	Essential Commodities Act	26
6	Agriculture Marketing	26
7	Import & Export	27
8	Forwards, Futures and Options	27
9	Multi-state Co-operative Act	28
10	Forests	28
11	Knowledge and Information	28
E.	EDUCATION AND EMPOWERMENT	28
1	Policy Framework	29
2	Public Regulatory Body	29
3	Price de-Controls	29
4	Education Loan System	29
5	Tax Holiday	30
6	Independent Rating Agency	30
7	Modern Testing Agency	30
F.	OTHER SERVICES	30
1	Productive employment	30
2	Quality of Services	31
3	Social Services	31
4	Health: Drugs	31
5	Housing: Rent Control	31
6	Media	32
G.	INSTITUTIONAL	32
1	ADMINISTRATION	32
a)	Performance Measurement	32
b)	Incentive structures	32
c)	Internal labour market	32
d)	Planning & monitoring	33
e)	Specialisation and Expertise	33
f)	Education and Training	33
2	REGULATORY AUTHORITIES	33
3	ECONOMIC LAWS	33
4	LEGAL SYSTEM	34
H.	STATE AND LOCAL	36
1	STATE REGULATORY AUTHORITIES	36
a)	Electricity	36
b)	Canals	36
c)	Municipal services	36
d)	Education	36
2	STATE FISCAL REFORMS	36
a)	User Charges	36
b)	Expenditure Priorities	36
c)	Tax Reform	37
d)	Legislative Transfer	37
3	Re-ENGINEERING STATE GOVTS	37
4	FREEDOM OF INFORMATION	37
5	De-CONTROL & De-LICENSE	37
a)	Agriculture and Agro-processing	37
b)	Education	37
c)	State road transport	38
d)	Urban Land Ceiling & Rent Control	38

6	RURAL LAND REFORM	38
7	COOPERATIVE LEGISLATION	38
8	STATE POPULATION POLICY	39
9	URBAN & MUNICIPAL REFORM	39
10	STATE POLICY PAPERS	39

I. OVERVIEW

A. Introduction

1. Economic reforms started in a slow, fragmented and limited way in the eighties and gathered momentum and clear direction in the nineties. These reforms have by and large focussed on removing the economic distortions created by earlier policies such as physical controls on economic activity and excessively complicated taxes. As a result of these reforms India will likely have a trend growth rate of about 6% per annum over the last two decades of the 20th century. This ranks India as the eighth fastest growing economy (excluding small countries) in the world over the past two decades.¹ Despite this India remains one of the poorest countries in the World. As per the last comprehensive survey in 1993-94, about 36% of the people are still below the poverty line. As per the international poverty line, about half the people are still poor. The fiscal problem, arising from an excess of unproductive expenditure, increases the vulnerability of the poor (and the economy as a whole) to adverse shocks. The performance of other Asian countries that were in a similar situation three to four decades ago shows that we can solve these problems of poverty in a decade, if we can summon up the will and determination to do so.

B. Goals and Objectives

2. As we enter a new millennium, low (per capita) income poses both a challenge and an opportunity. We must accelerate economic growth in the first two decades of the 21st century so as to eliminate poverty and under-employment. We must ensure human development and empowerment of the poor, by ensuring 100% literacy and universal primary education. The experience of other countries in Asia shows that it is possible to raise growth to 7%, to maintain it for two decades and thus generate full employment, and provide 100% literacy. Basic minimum services must be provided to all. To ensure environmental sustainability and quality of life population growth will have to be contained. And all this must be done in a manner that promotes peoples' participation and builds self-reliance and human dignity.
3. The state must refocus attention on some of its most basic responsibilities such as the provision of public goods (roads, police, courts, regulatory systems), primary education, 'public health' (water, sewage, & sanitation) & population control and stop degradation of common resources (water, forests). These responsibilities have been virtually lost sight of, squeezed

¹ Small countries are defined as those with a population less than 10 million and GDP less than US \$ 40 billion. Among the small countries for which data was available two grew faster than India.

between rising fiscal deficits and expanding role of the state in every area of economic activity and the inevitable rent seeking that followed. The only way the government can provide these basic services in the next decade is by ruthlessly shedding a host of activities that the private, co-operative and decentralised sectors are capable of undertaking given the right policy environment. It is of vital social and national interest to ensure 100% literacy and universal primary education within the next decade.

C. Means

4. Accomplishing all this requires both a completion of reforms started earlier and new reform initiatives, which encompass fundamental fiscal changes, reform of relatively untouched sectors and factor markets and institutional and legal areas. The fundamental driving force behind the social benefits that accrue from a market economy is “competition”. One of the important tasks of reform has been and remains, to identify and remove all the bottlenecks to competition arising from past government policies, colonial era laws, outdated rules, and bureaucratic regulations & procedures. This must encompass not only the product market but also factor markets that are the source of productivity, technical change and sustained growth. In most parts of the economy de-control, de-bureaucratisation and correction of policy distortions is sufficient to generate competition.
5. There are three sectors in which this has to be supplemented with an independent and modern regulatory system. One is physical infrastructure, where some segments are still characterised by ‘natural monopoly’ and which requires regulatory structures to foster and mimic competition. The other is the financial sector (banking, finance and capital markets) characterised by fiduciary responsibilities. This sector requires a different type of regulation focusing on transparency, reduction of systemic risk and detection and punishment of fiduciary irresponsibility. The third is that part of the social sector characterised by information asymmetry and fundamental irreversibility (education & health).² Modern regulation is necessary to ensure that information on quality of service is made available to the public and fraud & cheating is minimised.
6. The fiscal situation deteriorated during the eighties and culminated in the BOP crises of 1991. Though the sharp deterioration that immediately preceded the crisis was reversed equally quickly, the fiscal deficit remains at a high level. Underlying this deficit is a quality of expenditure, which is not sustainable. Too much is spent on unproductive subsidies, goods and services and too little on basic public goods & human needs and maintenance of capital. In the long term such a high level of fiscal deficit is

² Wasted years & lifetime effects and permanent damage to health respectively.

not sustainable. It must be brought down over the next decade to sustainable levels. If this is not done, the vulnerability of the economy to adverse shocks could increase, especially if the high fiscal deficit is coupled with a continuing deterioration in the quality of government expenditure. Higher growth could then be put into jeopardy. The fiscal problem must be tackled head on by the Central and State governments if high growth is to be achieved and sustained.

7. The institutions of governance and market, too often taken for granted in the economic context, are basic to equitable & efficient growth and for sustaining such growth at high levels. The quality of institutions of governance needs to be improved dramatically. This requires a fresh and unbiased review of their roles and functions, a much greater focus on a few vital functions, abandonment of numerous objectives & tasks accumulated over the decades and a thorough modernisation of management systems, procedures and technology. In some cases old institutions (such as Panchayats and Co-operatives) have to be strengthened and given new roles. The States must decentralise powers and functions to the local level so as to improve targeting and productivity of expenditures. There is also a need for fostering & developing new social institutions such as Self-help Groups, user associations, citizen's groups and NGOs.
8. In a democratic system, laws and constitutional conventions also have an important role in creating the environment for governance and growth. This can include not only economic laws but also electoral and other laws. For instance legal changes that seriously address the issue of criminals in politics (and legislatures) can have a significant effect on investment and growth.

II. INDIA IN GLOBAL PERSPECTIVE

A. India's Position

9. Fifty years have passed since India gained its independence. The 20th century is coming to a close and we are at the threshold of the 21st. We have still to meet many of the unmet challenges of the past half-century and convert these into opportunities for transforming the country. In looking towards the future of the country in the 21st century, it is best to start by taking stock of the present condition of our people, particularly the poorest among us?
10. Both India and China are among the poorest countries in the world coming in at 126th and 88th position respectively in terms of per capita income (again measured in PPP terms).³ Besides measuring the standard of living of the people, this is also a measure of the relatively unsophisticated nature

³ As per World Development Indicators 1999.

of the economy as a whole. For instance a large fraction of our labour force is engaged in low productive activities in agriculture and services. Its average education & skill level is also low compared to countries with high per capita income. This affects the economy's ability to produce quality goods & services and meet new technological challenges. We are justly proud of our scientific and technological achievements in selected fields. It is, however, the low average level of education & skills that is quite visible to any foreigner and affects the international standing of the nation and its people.

11. Per capita income measures the average standard of living of the people and is closely related to the degree of poverty. It is a matter of great sadness that our people are so poor, that such a large section of our people remains illiterate and below the poverty line. The urgent need for moderating population growth should not be forgotten, as it seems to have been for the last few decades. Economic growth remains the key to eliminating unemployment and poverty. What is needed is efficient self-sustaining growth, which generates productive employment. Employment generation nurtured by subsidies and protection cannot grow in a self-sustaining fashion because it leads to fiscal deficits, mounting debt and ultimately bankruptcy. Our fiscal deficit is the highest among the fast growing economies and among the ten highest in the world. The old paradigm of the all knowing, all powerful and moral state has failed to eliminate poverty and illiteracy over the last five decades. At the turn of the century many state governments do not have the resources and some not even the motivation, to carry out even the most basic functions of the state. In several instances, Law & order, justice, Civic amenities and education have deteriorated beyond belief. We need a new paradigm for the 21st century, which recognises the strengths and weaknesses of the people and the state and allows each its due role in the development of the economy.
12. A similar deterioration has taken place among the industrialists and workers. Controls, intrusive regulations, subsidies and protection have led to a deterioration of the work culture and induced rent seeking by traditional industry & services. The new paradigm must therefore include a transformation of the mind-set of both old industrialists and organised labour. Industrialists will have to learn to earn profit through competition and innovation; labour will have to learn to advance through hard work and acquisition of new skills & education.
13. It is important, however, not to confuse low per capita income (poverty & underemployment) with high *degree of inequality*. Of all the countries in the World, data on income or consumption distribution is available (WDR 1998-99) for about 80 countries. Using both the 'Gini' co-efficient and the share of the poorest 20% as a measure of consumption or income distribution,

there are only 15 countries in the world, which have a better consumption/income distribution than India. Nine of these are in Eastern Europe, six in Western Europe and only one (Rwanda) is outside Europe. Beside this, one Western European country has a better Gini co-efficient and one Asian country (Laos) has a higher share for the poorest 20%, than India. India thus has one of the most equal consumption/income distributions among the developing countries and emerging economies.⁴

14. This paper covers the relatively neglected sectors of reform that need to be taken up in the next phase. The focus is on the reforms needed in the Agricultural & Allied sectors, Social sectors and Institutional & Legal reforms. Many of these are areas coming wholly or partially under the purview of the State governments. The central government in addition to its direct responsibility may have to play the role of persuader cum think tank for the states. These are also area that can play a vital role in providing equality of opportunity to the poor and generating employment in the areas in which many of the poor live.

⁴ Subject to the caveat that some countries with a worse income distribution, could still have a better consumption distribution.

III. SECOND PHASE OF REFORM

A. EMPLOYMENT, ENTITLEMENT & EMPOWERMENT

1 SOCIAL WELFARE

a) Hunger

15. A truly democratic and civilised government cannot allow its citizens to starve to death. That is why famines have been virtually eliminated in free India, even though semi-annual reports of starvation deaths in Kalhanidi stand as a rebuke. Though chronic hunger has also declined over the decades, some still remains. The most important social function of government is to eliminate chronic hunger. The public distribution system, despite its considerable cost has failed to accomplish this. We must experiment with more innovative solutions, like replacing the PDS by a system of food stamps as in Sri Lanka or using food debit cards. Southern Africa is reported to have a successful system of paying pensions in remote areas through electronic money cards which have a password coded into them to minimise diversion. Modifying the PDS to induce self-selection can also be an interim solution. This would require issuing coarse cereals & inferior grains, reducing the amount & increasing the frequency of ration issue, and locating Fair price shops only in poor areas.

b) Old and Disabled

16. The old, infirm & disabled and those who have fallen sick are disproportionately represented among the poor. A social safety net is required for those who are physically unable to work. There should also be some legal and moral pressure on able-bodied progeny to support the old. Poverty due to sickness can be dealt with by providing government subsidy for health insurance for the poor, which includes an income supplement for maintaining dependants. The health insurance system should however be run on competitive commercial lines so that pressure for cost reduction and quality improvement can be maintained.

2 HUMAN DEVELOPMENT

17. Poverty reduction and alleviation has been at the centre of government's development effort through the past several decades. Though growth creates job opportunities, the poor can only benefit from these new opportunities if they are healthy and have the basic educational requisites. Human development is essential for making the poor full participants in the market economy.

a) Public Health

18. Public health is a fundamental entitlement of the people. It is only when there is an outbreak of an epidemic such as plague, dengue fever or cholera that we remember the importance of and the need for sustained measures for its avoidance and control. Government must fund R&D in contagious diseases, particularly tropical diseases, which do not interest researchers in the developed temperate countries. Private Indian companies should be drawn into this effort by provision of tax incentives. Research is also needed on epidemic avoidance, monitoring & control measures. A centre for disease control can be constituted for this purpose, by strengthening an existing institutions or amalgamating a number of them. Dissemination of information on best practice and public education are essential ingredients of public health. Particular attention must be paid to urban slums and their inhabitants.
19. Clean drinking water, sewage, sanitation and waste disposal are also vital ingredients of public health. The great declines in mortality and increases in longevity occurred across the world because of an improvement in these elements of public health. Our performance in these areas has been embarrassing if not shameful; even in the capital city there are areas where the water is not fit for drinking and the slums can become cesspools of sewage during the monsoons. The condition of most provincial towns is worse, with open sewers characterising many small towns. It is the government's duty to ensure that every citizen has access to clean drinking water, sewage and sanitation facilities. State and local governments must refocus their attention from grandiose development plans to ensuring 100% coverage in the next 10 to 15 years.
20. This is not just a matter of providing enough funds, but of motivation, planning and implementation. Simple matters like ensuring that sewer outlets are not constructed upstream from drinking water intakes, and that there are waste collection systems to ensure that drainage channels are not used as garbage dumps, have not been thought worthy of serious attention. Further it is not necessary that government provide all these services itself. Private providers must be harnessed to increase the quality and efficiency of supply. The examples of private & co-operative efforts such as Exonara in waste collection and Sulabh in provision of toilet facilities must be propagated and supported. Wholesale supply of clean drinking water, sewage & solid waste treatment and disposal (e.g. manure manufacturing, energy generating incinerators, waste dumps) are other areas that are ripe for private initiative and competition. Municipal rules and procedures must be changed to attract such initiatives. User charges must also be raised to economic levels, while ensuring that the poor have access to basic facilities at affordable prices. Municipal authorities must also encourage water

conservation and harvesting and pre-treat sewage before dumping into water bodies.

b) Child Labour

21. Childhood must be protected and all children have the right to basic education. The ban on child labour (below age 14 say) has to be complemented by free, compulsory primary education. Given administrative constraints and weakness, priority in enforcement must be on eliminating child labour from hazardous industries. There cannot be any excuse for allowing children of even desperately poor parents to work in jobs that harm their health and stunt their growth & development. 100% tax deductibility can be provided for expenditure incurred on education of child labour.

c) Education

22. Though all policies and programs over the last 50 years have been justified in the name of the poor, literacy and primary education the most essential aspect of human development has been pathetically neglected. Not just the individual but also the entire society benefits if all its citizens are literate. All States must achieve 100% adult literacy and free and compulsory primary education in a time bound manner, but not later than 2010. Achievements should be monitored and publicised and Non-Government Organisations must alert the public on the anti-poor nature of State governments that do not provide either the funds or the motivation for achieving the targets. For ensuring that the remotest rural areas are part of this effort, it is necessary to de-centralise funds and control over teachers to the Panchayat level. An Educational Guarantee scheme on the lines of the successful one in MP can be tried by other states. Education must also be made more meaningful. We should educate children about the need for smaller families, the equality of women, basic nutrition, hygiene and health science, environmental pollution & preservation, and social & constitutional rights & responsibility.
23. The highly laudable success of Kerela in achieving universal literacy and high basic education levels has not been based only on public provision of schooling. Private schools have played a very important role in the achievement of high levels of human development in Kerela. The governments role in creating the right atmosphere of encouragement and helpfulness is however critical to the success of any such private effort. Unfortunately, too many state governments are more inclined to interfere in, obstruct and harass any successful private educational institution. This must change if we are serious about universal literacy & primary education. A framework for private and co-operative entry into education is spelt out in section 3.5.

3 POPULATION CONTROL: Environmental Sustainability

24. The environmental degradation of life-giving natural resources such as water, air and forests, under the pressure of poverty and population, has shown that containing population growth is necessary for sustaining an improved quality of life for the entire population. The fiscal crunch and the limited resources available to the States for human development and infrastructure, add to the difficulty by spreading expenditures more thinly the greater the population growth. Population control will also (initially) reduce the demand for jobs and thus help reduce underemployment of the adult labour force. It would thus speed up the demographic transition.
25. Population containment efforts must be re-invigorated, drawing from the success achieved most recently in Tamil Nadu. Social education of old and young must play an important role by bringing about a change in the attitude towards the girl child and the enhancement in the quality of life that fewer children make possible. This should be done in schools and through health professionals, Child and maternal caregivers, media and other channels. Some of these channels can also be used to increase public awareness about contraceptives, as was done very successfully by Prof. Machai in Thailand several decades ago. We must enable and encourage retailers to sell non-drug contraceptive products, and wholesalers to set up condom vending machines in airports, railway stations, government offices and other public places.
26. To signal the importance of population containment, political parties should agree to the reintroduction and passage of the Constitution (79th amendment) Bill, 1992, to disqualify from Central and State legislatures, any person having a third or higher child after the passing of the bill (grace period of one year). Similar provisions could also be considered for eligibility for jobs in government and other public institutions. If the speed of demographic transition is accelerated through these and other measures like education of girls, we could attain the per capita income growth rates seen in E. Asia and Singapore.

4 EMPLOYMENT GENERATION

27. A basic objective of economic & social policy is to ensure that all able bodied but poor citizens who are willing to work at the prevailing market wage for unskilled work are provided a job at that wage. Faster economic growth and employment generation will in a decade or so eliminate underemployment and disguised unemployment. Flexible labour markets are essential for generating employment at the same pace as economic growth.

a) Labour Flexibility & Employment Growth

28. Labour market reforms are essential for generating higher productivity organised sector jobs at a faster rate. This requires greater flexibility in the organised labour market so that both sincere management and hard working labour feel more confident about leaving one job and moving to another. Once such confidence can be imparted, the rate of creation of new jobs in the organised sector will be accelerated. The reforms needed for imparting such flexibility are detailed in section 3.3.

b) Employment Guarantee Scheme

29. Faster economic growth and employment generation will in a decade or so eliminate underemployment and disguised unemployment. In the meanwhile, we need a simple well-focused government program, which is financially sustainable. Over the last few decades there has been a proliferation of poverty alleviation and employment generation schemes. Each has its own administrative infrastructure and works relatively independently. These schemes are commonly believed to deliver only a fraction of total expenditure as benefits to the intended beneficiaries. There are also numerous schemes for building local infrastructure. An Employment Guarantee scheme (EGS) patterned on the Maharashtra one would be ideal if all these other schemes are eliminated and the funds allocated to a National EGS. By integrating infrastructure building, including watershed development and water harvesting, at the Panchayat and block level, in the EGS its effectiveness could be greatly increased. The scheme must be counter cyclical in terms of district/region wise demand for unskilled labour, based on average off-season market wages (designated as the minimum wage for that district/regions EGS) and incorporate a transparency clause which requires supply of information on people hired, time spent and wages paid.

5 POWER OF INFORMATION

a) Freedom of Information Act

30. The Official Secrets Act virtually prohibits civil servants from giving any information to the public, by providing a stringent penalty for 'unauthorised' disclosure. Thus in principle any information can be hidden if desired by the head of the ministry. This is an anachronism in a modern democracy, whose people value the freedom of information, thought and action. The official secrets act should be replaced by a freedom of information act. The objective of such an act would be to open government to its people to the maximum extent possible, by carefully delimiting the areas (e.g. foreign affairs, defence plans, strategic R&D, personal files) to which secrecy needs to apply. It would be designed to give the public the right to information about decision & actions that affect their lives. This must include every item

of expenditure (small or large) made in the name of the poor, the weaker sections, scheduled castes and tribes. It must also include the various permits, licenses and permissions given to the public at the municipal and block or district level, so that they are available for public inspection. It should be compulsory under this law to disclose to researchers, data collected through surveys and other data collection exercises (after ensuring individual privacy & anonymity of data sources). Such an act if enacted and enforced can transform the relationship between the government and the people from colonial over-lordship to one of true servant of the people. For this reason it may be strongly resisted by those in government.

b) Internet Telephony

31. The Internet can open up a world of knowledge and information to the remotest rural areas and the most oppressed communities. The existing Telegraph network, whose reach into villages is much greater than of telephones, must be made available to those who want to provide Internet access through this medium. If TRAI can insure (telephone & telegraph) network interconnection & access at marginal cost to all Internet Service Providers, the Public Internet Booth (PIB) could become as if not more ubiquitous than the PCO.
32. According to some observers Internet telephony costs only a third of conventional basic telephony. Though the quality of Internet telephony is currently quite inferior to conventional analogue telephones this is expected to change rapidly over the next few years. If costs continue to fall, Internet telephony would be ideal for providing non-subsidised service to rural areas and for fulfilling universal service obligations. Government should therefore put the new network companies on par with the private sector and stop all subsidies, so as to induce faster introduction of Internet telephony. Private communication service providers should simultaneously be freed to provide Internet telephony. Once this is done there would be rapid expansion of the Internet backbone across the country.
33. Access to the internet could transform the flow of scientific information on crops, fertiliser dosage, appropriate pesticide use, water harvesting, irrigation, etc. and bring about a second green revolution. It could also provide a channel of communication from oppressed remote communities and individuals to human right groups in State capitals and other urban areas. The spread of Internet Telephony would provide real time information on urban price & demand conditions to farmers. If accompanied by removal of restrictions on movement of commodities, this would rapidly eliminate high trade margins and the power of traders to exploit shortages.

6 De-CENTRALISATION

a) Multi-state Co-operative Act

34. The great promise of co-operatives has not been fulfilled, either because of heavy politicisation or excessive bureaucratic interference. Co-operatives have often become a channel for rent seeking. They could still play a useful role if they go back to first principles and become genuine co-operative self-help groups and eschew the temptation to milk the government for favours. The multi-state co-operative act must be reformed to ensure professional management and elimination of government interference. Some states have already reformed their Co-operative acts along the lines of the model act recommended by the Brahma Parkash committee (set up the Planning Commission. Other States also need to do so. An independent regulatory authority for co-operatives could be set up to ensure that they follow these principles.

b) Decentralisation to Panchayats

35. As a result of our colonial heritage, administrative structures are very hierarchical and much less de-centralised than appropriate in a grass roots democracy.⁵ Efforts must be made to de-centralise as many local government activities to the Panchayats as possible, without minimising administrative difficulties or ignoring caste conflicts. It appears feasible to decentralise local area development (e.g. watershed development, maintenance of public assets) to this level. A mechanism for joint control over functionaries responsible for field level activity in social and developmental sectors should be designed and tried. For instance part of the wages of these employees could be based on '*wage coupons*' allocated to Panchayats. The coupons would have to be earned by employees from Panchayats by providing satisfactory service. Devolution of funds must be conditioned on major decisions being taken in quarterly open Sabha. A system for training Panchayat heads should be set up.

c) Land Reform

36. It is necessary to strengthening enforcement of traditional land reform in semi-feudal and tribal areas. In such areas, we must implement traditional land ceilings, continue the ban on leasing of land and strengthen the tenancy rights of sharecroppers. These measures should be combined with provision of services such as micro-credit and transfer of technology. To do so effectively may require that planning and implementation be done one district at a time all are covered.

37. Commons and community land is currently owned at the state level. To make more effective use of such land, ownership rights could be transferred to Panchayats subject to rules on non-discriminatory access to use of land

⁵ As envisaged by Mahatma Gandhi.

and its preservation. Alternatively, States could give the land on long lease of 20 years, renewable for another 20 years for specified sets of uses such as agro-forestry and fishery.

d) Self Help Groups

38. Empowerment of the people requires the promotion of self-help groups and non-governmental organisation in social development and reduction of transaction costs. Micro-credit should be provided on group loan principles, through self-help groups. Water users associations should be promoted and encouraged to co-manage the system below the distributory, with a financially autonomous irrigation agency set up for this purpose.

e) Forests

39. Non-timber forest produce should be denationalised to promote its optimal growth and usage. Private trade and the local inhabitants could then carry out this activity on a more organised and open basis, to the mutual benefit of both. This would help distinguish it from illegal felling of timber and thus allow better monitoring of the latter. Great restraint & care must be taken in leasing degraded forestland to contractors. It would be preferable to promote protective recuperation by reducing biotic pressure, through involvement of local inhabitants.

B. RE-FOCUSING GOVERNMENT

40. In the early days of development it was assumed that private entrepreneurs & firms were unwilling or unable to undertake investment in and production of many goods and services. This assumption has long since become invalid. The role of government must therefore change from being an entrepreneur, investor and producer of goods & services, to an enabler and facilitator of development. It must continue to fund the provision of Public goods and provide for the correction of externalities and the basic social safety net. It must catalyse the building of institutions & markets where these do not exist. But it need not produce all these services itself.
41. Though the fiscal problem is an old one with a substantial unfinished agenda, it is also the one crying out most strongly for radical reforms. A re-examination of the entire role and methodology of government is needed, if a lasting and permanent dent is to be made in eliminating the fiscal problem and fulfilling the role that only government can and must fulfil.

1 SUBSIDIES

42. Any subsidy on a good or service distorts the consumption and production of that good or service. Thus for instance a power subsidy results in wasteful consumption of power and distorts the entire structure of production and investment in power. This is why most subsidies are classed

as non-merit subsidies. As the discussion paper on subsidies indicated, such non-merit subsidies (including indirect or implicit subsidies) for Centre & States were estimated at about 11 % of GDP in 1994-95. It is therefore essential that these subsidies are reduced and part of the money saved is channelled into more productive expenditures that have a better and more lasting impact on the incomes of the poor. Some of the important pending reforms in the area of subsidies and user charges are as follows.

a) Fertiliser Retention Price System

43. Some academics have estimated that two-thirds of the Urea subsidy goes to the fertiliser industry. This cannot be justified in the name of farmers. The retention price system distorts investment and production decisions and creates an inefficient production system. Dismantling of the retention price system and price de-control are essential for initiating cost efficiency and a search for innovative ways of meeting the fertiliser requirements of farmers at the lowest possible cost. Moving to a de-controlled system in which the farmer gets fertiliser at international prices could accomplish this objective.⁶
44. To achieve this goal Urea imports should be put on OGL with zero import duties. The maximum (minimum) retention price would be simultaneously lowered (raised) by appropriate amounts to reach world levels within 3 to 5 years. A reduction and elimination of the fertiliser subsidy would make it possible to provide sufficient allocation to irrigation and watershed development schemes that particularly benefit small and marginal farmers.

b) Public Distribution System

45. The public distribution system (PDS) has grown in an incremental and piecemeal fashion over the years, under the pressure of circumstances. It is appropriate to re-examine its objectives and re-direct it towards these objectives. In an open economy with free access to the productive capacity of the world economy, the primary purpose of a PDS is to supplement the incomes of the poor. For the urban middle class, it can at most provide a temporary buffer against the occasional sharp change in food prices. With this in view the following changes in the PDS should be considered:
- It is essential to improve the targeting of PDS to those who need it most, namely those below the poverty line. A start can be made by removing actual & potential (indicators: property owners/permanent tenants, motor vehicles, telephones, electricity usage, foreign travel) income tax payers from PDS.
 - Sugar is neither nutritious nor is it health enhancing. If anything consumed in excess it damages teeth and aggravates diabetes. This must

⁶ The 'Hanumantha Rao committee' report also supported de-control of fertilisers.

be coupled with complete de-control of sugar so that poor consumers are compensated through competitive prices.

- Much of the food subsidy is channelled to the FCI. It also monopolises the food credit. FCI like all monopolies is subject to wastage and inefficiency. The benefits of competition can be harnessed in the service of the poor by converting FCI into an agency for planning and project management, while permitting free entry into procurement, storage and distribution. States would be free to set up public or joint venture companies if they find it commercially viable. Private entry would also be encouraged under transparent accounting norms & rules for determination of carrying charges. The current massive excess stocks provide an ideal opportunity for major reform.

c) Petroleum APM

46. The administered price mechanism is to be dismantled by 2002. This process should be accelerated so that this important manufacturing sector can start seeing the benefits of competition.
47. Neighbouring countries, some much poorer than us have LPG prices much higher than in India. Our urban middle class, who is the main beneficiary of this subsidy, can certainly afford to pay the prices paid by consumers in Bangladesh or Nepal. LPG prices can be raised to international levels by eliminating the LPG subsidy. This must be coupled with de-control of prices, distribution and international trade to ensure competitive supply to consumers.
48. The higher the per-unit subsidy, the greater the chance of Kerosene being siphoned off before it gets to the beneficiary. The subsidy has to be kept moderate if it is to have some chance of reaching deserving beneficiaries. Taking the subsidy directly into the budget can do this.

2 USER CHARGES

49. Many public monopoly services have been priced either on the principle of 'what the traffic will bear,' or on the assumption that the government will underwrite whatever losses are incurred. This approach is a recipe for disaster, as already exists in the power sector in terms of low & highly variable availability and equipment destroying quality. It is essential to move to cost based pricing of infrastructure services to generate sufficient resources for quality production. It is also critical for generating finances for the investment needed to reach and sustain an economic growth rate of 7% to 8%. Higher infrastructure growth is in the long-term interests of the common man both as a consumer and as worker. Among the specific areas that have to be addressed are the following:

- In the case of basic rural infrastructure and basic social services (like roads, water, education and pollution reduction) a rise in user charges will have to be coupled with explicit (earmarked) budgetary subsidies.
- In higher education fees should be gradually raised to cover all operational costs. Fees could be raised to half or more of fixed costs for those skills that have high market demand (e.g. management, software). Means cum merit scholarships must be provided to ensure equal access to higher education. Subsidies should be focussed on research & development and research students in science & technology.

3 QUALITY OF GOVERNANCE

50. Government including related and subsidiary institutions is the largest producer of intangible services such as policy, licenses and permits, legal judgements and information. Computers and computerised information systems are perhaps the most important productivity enhancing tools for provision of such intangible services. A comprehensive program should be drawn up with the help of professional consultants for computerising the operations of government and all related institutions. Large amount of time is currently wasted in duplicate collection, entry/re-entry of the same information and in retrieval of information (files, papers). Data base management systems & access to data and the interface with the public can also benefit from better communication links, including those between computers in different locations. Management Information Systems would be set up as part of this process. These systems should make it possible for the government to provide quick and efficient service to the public and to focus its energies on better analysis and management of the economy.
51. Many of our administrative practices and methods have not changed since colonial times. We need to urgently introduce modern management practices in departments that provide a well-defined service such as Posts or have a well-defined objective like tax collection. Large departments to assist them in a thorough re-examination of objectives, methods, and procedures should hire management consultants, using BPR, ERP or other recognised methods. Developed countries commonly applied techniques like PERT and CPM to project management three decades ago, and these became widespread with the proliferation of computers. These techniques reached India only recently and are still not in common or widespread use. Departments can also benefit from the application of modern cost accounting techniques like ABC. All ministries, departments and subsidiary organisations should make a budgetary provision for introducing modern management systems and hiring management consultants where needed. There is also need for decentralisation of financial powers to subsidiary institutions along with systems and procedures for greater accountability need to be introduced.

52. A sustained decrease in unproductive expenditure and enhanced effectiveness of desirable expenditures requires greater transparency in purchase & procurement. The rules and procedures for public procurement should be brought up to international standards. We should consider signing the international convention on public procurement. Greater transparency in sale of public resources & property and market pricing would also generate more resources for meeting the basic needs of the poor. Under pricing of public resources in the name of the poor is usually a good indicator of the decision-maker's resolve to siphon off money in violation of the public trust.

4 EXPENDITURE PRIORITY

53. Since 1949 the government has diversified into so many areas of production and service provision that the original functions of government have been lost sight of. The limited resources available to the government have been spread so thin that there is no money available to undertake these functions satisfactorily. The basic or fundamental functions of government can be divided in three categories: a) providing public goods like defence, police, roads and epidemic control b) correcting externalities such as those involved in primary education, pollution and in generation & dissemination of knowledge, and c) promoting social welfare.

a) Human Development

54. The critical areas of human development and social welfare have been defined above. They must have the highest priority in public expenditure.

b) Rule of Law

55. One of the fundamental characteristics of a democracy is the 'rule of law' as against the rule of men that characterised monarchy, dictatorship and feudal societies. Effective functioning of the market economy requires that economic laws such as the law of contract be appropriate to the current & projected environment. The foundation of the 'rule of law,' is the Laws themselves, and a sound superstructure cannot be built on shaky foundations. Many of these laws are archaic, being framed half a century ago; others have been added over the years so that they are now replete with contradictory stipulations, definitions and standards. There are now about 800 Central acts and possibly about 1000 acts, regulations and ordinances in each state. As per the recommendation of various commissions, 166 Central acts need to be scrapped along with 11 British statutes and 17 wartime ordinances. States should repeal 114 Central acts relating to state subjects. All other laws should be thoroughly re-evaluated with a view to modernising and integrating them in the light of the transformation of the Indian and world economy.

56. The delays in the legal system are by now legendary. Decades pass with repeated, innumerable and wasted court appearances. Delays help defendants to win acquittals. Witnesses forget the exact details of various events, or become untraceable, which helps in generating “reasonable doubt”. Court personnel are illegally persuaded to delay listings. The delays and the attendant cost of transacting business have had a dangerous effect on society. For instance, in property disputes, the plaintiff knows that a settlement can take anything between 15 to 20 years, during which time the property will be in the possession of the defendant. This encourages people to settle property disputes by resorting to criminal means, rather than follow the rules of law. Justice can only be built on sound laws and an effective legal system. Government must take steps to stop and then reverse the deterioration. False economy in the creation of judge’s posts and in provision of modern facilities for their effective performance and courts’ functioning has enormous costs for the entire economy.

c) Public order

57. The right to life is the most fundamental right of any citizen. Physical safety and security of all, provided, as a right under the ‘rule of law,’ is one of the important characteristics distinguishing a market economy from a semi-feudal one. If feudal landlords can force their will on the poor, the scheduled caste or land-less labourers it is the very anti-thesis of a market economy. The market economy can only be based on and function under an administrative system, which ensures the safety, security and freedom from physical coercion of all market participants. Investment in production and employment generation cannot but be severely affected if personal security and the safety of investment are under threat. The slow & steady deterioration in the ‘law and order’ situation over the past several decades has not left any of us untouched from the affluent suburbs of Delhi to the semi-feudal regions of East India. We cannot afford to ignore this deterioration much longer if the negative consequences on economic growth and development are to be avoided. Sporadic and short-term campaigns to tone up the police are not enough. Fundamental changes are needed in the entire system and structure of policing.

58. The objectives, work ethic and effectiveness of the police has been undermined by constant political interference, transfers, and use of the police for personal and other purpose. Their poor emoluments and basic living conditions and inadequate education and training also contribute to inefficiency and low morale. The sole objective of the police must be to uphold the ‘rule of law’ and ensure ‘law and order.’ Previous police commissions have identified the need for creating a structure in which police autonomy and independence is ensured. One possible method is an independent police commission, with subsidiary commissions in each state,

which would make senior appointments, monitor their performance and ensure integrity. Given the resistance to such change, an alternative could be to leave normal policing duties with the existing set-up, but create a separate autonomous organisation for investigating and prosecuting a defined set of serious crimes. The concept of a specialised public prosecutor could also be included in this structure.

59. Given the frequent complaints about police harassment and worse, there also has to be an independent set-up to police the policemen and to protect the citizens against arbitrary actions by the police. As in the case of judges all professional equipment and facilities (e.g. modern forensic labs) needed by the police for effective functioning must be provided to them.

C. LABOUR AND EMPLOYMENT

60. Labour along with finance and management is the third critical factor on which the efficiency, productivity and growth of Indian Industry will depend. Just as it is necessary to increase competitive pressure on industry by removing barriers to entry and competition, it is equally important to provide industry with the means to compete. Labour market reforms are essential for equipping Indian industry to meet the challenges of competition and for generating jobs at a faster rate. The objective is to impart greater flexibility to the organised labour market so that both sincere management and hard working labour feel more confident about leaving one job and moving to another. Once such confidence can be imparted, the rate of creation of new jobs in the organised sector will be accelerated.
61. There are two aspects to this reform. A greater flexibility in labour laws and rules and a strengthened safety net.

1 Labour Laws

62. India is probably unique among developing countries in moving so rapidly at such an early stage in its development from one extreme of worker protection to the other. At one stage our organised labour market, consisting of only 8% of all workers, was probably the most rigid in the World. Rigidity means that wages do not respond to either unemployment or productivity. As a result the employment elasticity of manufacturing has gone down and fewer jobs are generated for the same growth of output. Though some correction has taken place recently, it is not enough to give confidence to Industry that employing a large number of people in a new facility is not like tying a millstone around ones neck in a championship race. The result is that many new industrial facilities are too capital intensive & designed to minimise use of labour and several exporters have preferred to set up new export facilities in competitor countries rather than acquire this permanent handicap. The time has come to move the pendulum

closer to the 'golden mean' of Buddha, by imparting greater flexibility to the laws, rules and procedures.

63. There is a plethora of labour related laws, with 47 statutes at the central level alone. Case law also differs under different statutes. There are variations in definitions of child labour, workmen, employee, wages, factory and industry. The National Labour code (1994) recommended unification & integration of labour laws, harmonisation of definitions, reduction of 'inspector Raj' and acceptance of records in electronic form. There is a similar need to unify and integrate the State labour laws with respect to the central ones. Creation of a national market requires that there be a consistent and uniform set of laws in all states.
64. The Trade Union Act should be reformed to make it democratic. Recognition of a Trade Union must be based on the cherished principles of secret ballot and majority vote. The multiplicity of unions need to be eliminated, by allowing only one democratically selected union to represent all workers. Non-worker office bearers should be limited to a maximum of 1% of the number of union members.
65. One of the keys to an efficient and internationally competitive economy is specialisation, including specialisation in supply of quality services. The Contract Labour Regulation and Abolition Act was intended to regulate contract labour. Though section 10 gave government discretionary authority to abolish contract labour this came to be interpreted by courts to mean mandatory abolition. This has put a virtual halt to all moves to outsource services. A start must be made by removing non-core activities of industry from the purview of section 10. The act should eventually refocus itself on regulation of all contract labour by removing section 10 if necessary. We should target a situation in which outsourcing of all services by industry is permitted so as to encourage firms to specialise in, train labour for and improve productivity in each activity.
66. The manner in which the Industrial Development & Regulation Act has been interpreted and implemented by the States has made it difficult if not impossible to remove even the most corrupt, disruptive or lazy employees. Such employees can tie up their cases in layers of litigation for years. This is particularly harmful for Small Scale Industry where the owner manager has to manage every aspect of the firm. Even the argument of direct loss of job is invalid in this case, as one employee would be replaced by another leaving employment unchanged even in the same unit. Among the reforms that can be carried out in ID&RA to impart greater flexibility are;
 - Put a time limit of one year for filing claims so as to discourage frivolous claims.
 - Exempt Small Scale Industry with up to 20 workers from the purview of the act.

- Allow firms to remove delinquent employees up to a maximum of 1% of total employees per annum (without any questions). They must, however, be replaced by an equal number of new employees, within 6 months (say).
 - Give greater flexibility to units in backward areas and in export oriented units. For instance export units could be empowered to retrench employees without permission provided they make a social security payment of 30% of the last wage for a period of 6 months. The employee would be free to seek or obtain alternative employment during this period. He (she) would also have priority in re-hiring by the unit if exports pick up.
67. The scope and reach of the Industrial Disputes Act (IDA) was arbitrarily extended during the emergency. The applicability of chapter V of IDA should be restored to establishments with 300 or more employees, as was the case before the emergency. Chapter V-B regarding closure, layoffs and retrenchment should also be restored to its pre-emergency state by removing provisions made during emergency. This would be balanced by requiring provision of compensation as per Ramanujam committee report. Chapter IX A, which was intended to promote voluntary consultation at a time when trade unions were in their infancy, increasingly came to be interpreted as virtually requiring mandatory approval from workers. If Indian industry is to upgrade technology to meet the challenge of the 21st century, this provision must be deleted. Both management & labour are now mature enough to carry out such consultation on a voluntary basis, so as to ensure and enhance the profitability and competitive strength of the units.

2 Safety Net Improvement

68. The second critical aspect of labour market flexibility is the support system for employees who are out of work and searching for new employment and the systems for matching such employees with vacancies. Both these need considerable improvement. The national unemployment register must be modernised, computerised and put online through the Internet, with sufficient safeguards for confidential information. The system should also be able to generate and display an inventory of skills, from both the demand and supply side. Access to information should become as easy as reading a newspaper, for potential employers, employees, educational & training institutions and students. The target should be to develop the system into a national electronic labour market that even allows interviews to take place online. The National Renewal Fund should be strengthened to assist in re-training and relocation of employees. It could also assist in skill formation & up-gradation to increase the mobility of labour.

69. Once health insurance is opened to competition, it should also be integrated into the system in such a way that employees who move to another job continue to enjoy benefits during the search period and can carry any unused benefits to the new job.

3 Pension & Provident funds

70. It is in the interests of society that all individuals who can afford to do so make provisions for their retirement and old age. This reduces the direct responsibility of government to more manageable levels. Thus there is a need for a comprehensive system of private pension/provident fund, centred on the individual rather than on the organisation or the job held. In other words the system must be portable in the sense that the benefits remain with and move with the individual even when (s) he changes jobs or organisations. Such a system must be a fully funded one, with any employer contribution deposited into the individual retirement account. It must have modern and flexible investment regulations, which allow the build up of a broad portfolio including higher risk-return assets like equity and private debt. It must ensure application of efficient governance structures and management so that the worker has access to the same returns that are traditionally available only to the wealthy.
71. Replacement of the plethora of income tax deductions by a comprehensive exemption based on the net saving principle will ensure a supportive tax environment. Once this is done, limits on employee or employer contributions will become unnecessary and can be abolished. It is sometimes forgotten that there are a large number of self-employed people in the country some of them not much better off than unorganised workers. They must also be entitled to similar tax benefits for retirement savings. One approach, which could be an interim solution before a comprehensive net saving principle is implemented, would be to declare pension schemes as 'deemed trusts.'
72. Once untargeted subsidies and wasteful expenditures have been eliminated and the fiscal situation is firmly under control, an 'Unemployment Insurance' system for organised labour can also be considered.

4 Child labour

73. Childhood must be protected and all children have the right to basic education. The ban on child labour (below age 14 say) has to be complemented by free, compulsory primary education. Given administrative constraints and weakness, priority in enforcement must be on eliminating child labour from hazardous industries. There cannot be any excuse for allowing children of even desperately poor parents to work in jobs that harm their health and stunt their growth & development. 100% tax deductibility can be provided for expenditure incurred on education of child labour.

5 Unorganised Workers

74. A unified labour code would be useful for unorganised workers if it deals with work conditions such as age of entry, hours of work, health, safety & welfare at the work place (maternity benefits, compensation for injuries & health insurance). A system must be set up so that employers of unorganised workers can get a tax deduction for contribution to both a pension fund for employees and for work injury & health insurance. Enforcement of any law that controls hiring & firing or sets minimum wage above market rate would be unenforceable or worse. The priority should be on eliminating under-employment and disguised unemployment within the next decade or so.

D. AGRICULTURE & ALLIED SECTORS

75. About 70% of the population still live in the rural areas, as do an overwhelming majority of the poor. Even though agriculture now constitutes less than a third of GDP and non-agricultural occupations have grown in importance, it is still the motor of rural growth. Productivity improvement in agriculture requires not only an improvement in the quality of R&D and extension services, but a modernisation of the entire food chain from the farm to consumers. An improvement of the input chain from industry to farmers is also needed.
76. A better flow of information & knowledge into rural areas and its assimilation through universal literacy & primary education could raise productivity dramatically. This requires bold & radical thinking. For instance, opening of existing telegraph wires to anyone who wants to connect villages to the internet, could give the farmers a means of finding out whether the pesticide & dosage recommended by the local supplier is appropriate for his crop. Similarly, de-licensing Internet telephony could make it cheap & easy for a farmer in a remote village to call the retailer in Delhi to find out the price of onions, or to call Karachi or Chicago for the price of cotton.

1 Rural Land Reform

77. Ownership records, to the extent that they exist, are based on the age-old Patwari system. As a result land disputes abound and give rise to terrible violence in rural areas. The basic foundation of a land market is a modern system of registration, which makes proof of ownership as well as its transfer easy. Proof of ownership facilitates the flow of credit. Computerisation of all land records is therefore of vital importance to the rural economy.
78. Traditional land reform has been dominated by imposition of land ceiling and tenancy reforms favouring tenants. In areas characterised by feudal land

ownership and production relations, these reforms have had a beneficial impact when sincerely implemented. They have, however, also had the effect of killing the land market in non-feudal areas and thus contributed to the fragmentation of land holdings. There are an estimated 105 million holdings, an average size of less than 1.6 hectare and about 80% being less than 2 hectare. A selective change in the land laws can free up the land market and facilitate consolidation of holdings. The land lease market can be freed from controls within the overall existing land ceiling limits and small & medium farmers allowed buying or selling land within these ceilings. As a measure of abundant caution, this change need not apply to specified areas, which may be classed as feudal or semi-feudal.

79. Another dimension along which the rural land market can be freed is with respect to degraded land and wasteland, including desert, saline land & ravines. There are 24 million hectares of land characterised as culturable wasteland and permanent fallows. We should promote commercial leasing of Degraded and wasteland. After detailed delimitation, such land can be taken out of the purview of land ceiling and tenancy laws, and agro-companies allowed to buy, mortgage, develop, cultivate and sell this land. This will result in the introduction of modern technology, organisation, management and marketing practices into the rural areas. All over the world such entry has had large spill over effects through the demonstration effect as well as diffusion of best practices.
80. Green revolution, capitalist farming areas no longer require the kind of safeguards envisaged 50 years ago under different conditions. On the contrary these areas require a well functioning land market if they are to move to the next level of productivity, as the gains from the 1970s green revolution technology have been exhausted. It is therefore necessary to free up leasing of land in these areas and promote efficient agglomeration and commercial farming. Tenancy laws can also be relaxed in areas such as Western UP and coastal Andhra Pradesh. To protect the rights of farmer owners, recovery of land by owner could be made non-justiciable.
81. The liberalisation of the rural land market for capitalist farming areas, degraded & waste lands and for small farmers within the land ceiling must go hand in hand with strengthening enforcement of traditional land reform in semi-feudal and Tribal areas. In such areas, we must implement traditional land ceilings, continue the ban on leasing of land and strengthen the tenancy rights of sharecroppers. These measures should be combined with provision of services such as micro-credit and transfer of technology. To do so effectively may require that planning and implementation be done one district at a time all are covered.

2 Food Act & Food Regulatory Agency

82. The authority and responsibility of protecting the public from contaminated and adulterated food is currently divided among a number of agencies. The Prevention of Food Adulteration Act & other laws, rules and procedures are outdated. There are interminable delays in approval of new products, even those that have been in use all over the world for decades. The CCFS, which approves manufacture of non-standard food products, flavours & colours, has met only 42 times in 44 years.
83. A single unified Food Act should be framed covering both domestic production and imports. The Food act must harmonise Indian food standards with the quality norms of GMP and HACCP. Under this act there should be a single autonomous & independent food regulatory authority (FRA). Both the act and regulatory agency must adopt modern concepts of regulation. In particular the focus of law should be on fair and accurate labelling of materials used, size (weight, volume), and price (unit price) and identification & banning of substances that are hazardous to health. The old approach of requiring prior approval of every recipe and weight measure should be deleted. The focus of rules & procedures should be on detection of fraud in terms of mixing of non-edible material. The testing and fraud detection systems must be strengthened. An advisory panel of medical and health professionals could be set up by the FRA to advise it on technical matters.
84. The act should provide for information exchange and co-operation with similar agencies in other countries, so that testing & appraisal results from them could be used to take decisions about hazardous substances. New products should get automatic approval. If some previously unapproved material is used there could be a three-months (say) waiting period after which automatic approval takes effect. During this time the authority can call for objections or do any investigations that it desires. Alternatively automatic approval could be given for use of any material that is approved in two out of three developed areas (USA, EU, Japan). Directions could be given for subsequent testing & appraisal under Indian conditions, if & when thought necessary by the advisory panel of FRA.

3 Sugar

85. The dual pricing regime for sugar (and other commodities in the late seventies and eighties) was originally viewed as a painless way of transiting from a controlled to a free system. It has inadvertently become a permanent fixture of the sugar industry. It should be dismantled, sugar prices freed, the industry decontrolled, and sugar removed from PDS. This is consistent with the recommendations of the Mahajan committee.

4 Transport & Storage

86. It is only in India that the free movement of grains across states is termed smuggling! Remove controls on price, storage and transport of agricultural produce and processed goods. Price control on cold storage, an anti-farmer policy, still prevails in two states. Other states still restrict movement of commodities outside the state, resulting in the absurd situation in which farmers in a district in one state (e.g. Kalhandi) cannot sell to processing units in the neighbouring district falling in another state (MP). The Essential commodities act is one such impediment to modern systems of storage and transport. A start could be made, by exempting modern silos as well as organised grain handling storage and distribution companies from its purview. These companies can easily be monitored on a post facto basis.

5 Essential Commodities Act

87. Though introduced with the best of intentions, the Essential Commodities Act has become a barrier to development of agriculture and allied sectors. Whenever the price of a commodity has risen, the authorities have thought it fit to subject it the full force of the ESA to demonstrate that they are taking decisive action. The number of commodities under ESA has grown steadily as there is no such incentive to remove a commodity when the price increase has subsided. In a competitive economy the best insurance against unreasonable price increases is a seamlessly integrated national market within which information about production & prices moves instantaneously, and goods follow as smoothly and quickly. This requires efficient telecommunication, storage, transport and trading systems.

88. The stock and movement restrictions under ESA ensure that such a system cannot develop, and that competition is killed instead of encouraged. The Essential commodities Act has no place in a modern economy and should be repealed. A start can be made by modifying it to allow and encourage private sector to set up modern systems of procurement (grain mandis), storage (silos), processing and transport. Private involvement in the new competition policy would also deal with anti-competitive practices & structures in this industry, and the ESA should be repealed by the time it is introduced.

6 Agriculture Marketing

Agricultural policies at the state level also constrain its growth. Among the State laws that are now stifling the growth of modern procurement and distribution systems (e.g. for fruits & vegetables) is the law relating to Agricultural Produce Marketing. Under this law, the “Agriculture produce marketing committee” controls marketing of agricultural produce. Farmers must sell all their produce through the official market. Even if the APMC

allows an organisation to procure produce directly from farmers, they remain subject to all the rules, procedures and forms of the APMC.

7 Import & Export

89. A major reason for the high and volatile price inflation in Primary goods is that imports are still restricted and several exports are subject to quantitative restrictions (QRs). Such a system is not in the interests of farmers and often not even the consumers, as the government's information systems and speed of reaction is inferior to that of private trade and industry. The lagged government response often tends to aggravate volatility rather than dampening it. Both imports and exports of all agricultural items should be de-licensed. The best way to dampen excessive volatility is by allowing derivatives in all these products, and imposing import tariffs and export duties on selected sensitive products (e.g. common wheat, rice). The latter creates a price band around the international price, so that fluctuations in world prices within this band do not affect domestic prices, while domestic price volatility is also restrained beyond this band. This will be in the interests of both farmers and consumers, as a stable environment is more likely to encourage investment and productivity growth.

8 Forwards, Futures and Options

90. Derivatives markets are as much about information as hedging and risk taking. Savvy traders and large industrialist with their host of employees always have more information than the farmer or tiny industrialist. Derivative markets are a small step in correcting this imbalance in information. In a well-functioning screen based derivatives market new information about production, stocks and demand available to any of the savvy economic agents, is instantaneously reflected in the price of contracts. Even the small farmer thus gets this information indirectly. The farmer can then have an idea of the likely future price of items he may be planning to sow and plan sowing accordingly. He could also hedge some of his risk by forward or future sale.
91. There is an urgent need to introduce forward, futures & options in all commodities, particularly agricultural crops as they are subject to the hazards of weather & pests. The ideal system would be a single Regulatory Authority for all commodity derivatives and a single unified electronic exchange with trading terminals all over the country. This derivative exchange could be linked to a similarly unified screen based commodity exchange under a single regulatory authority. The regulatory authority could have subsidiary regulatory bodies and regional commodity exchanges so as to incorporate the existing commodity exchanges. As derivatives are essentially financial instruments consideration could be given to making

SEBI the regulatory authority for all derivatives and allowing NSE to trade in commodity derivatives.

9 Multi-state Co-operative Act

92. The multi-state co-operative act must be reformed to ensure professional management and elimination of government interference. An independent regulatory authority for co-operatives could be set up to ensure that they follow these principles.

10 Forests

93. At present all forests vests with the government and is looked after by the limited staff of the forest department. The proper potential of this renewable resource may not be fully utilised, while illegal felling damages it. Joint venture between reputable private companies and local residents should be explored, for protection, regeneration, use and development of forest areas under strict conservation rules.

11 Knowledge and Information

94. Knowledge is the most important source of growth. One of the reasons why some countries are poor is because they either do not have all the knowledge available in the developed countries or their people do not have the ability to understand adopt and adapt this knowledge for their own purpose. By its very nature the market for information cannot be perfect and there is an important role for government in fostering and disseminating knowledge. All over the world governments have played a critical role in the generation of agricultural technology and its dissemination to farmers. This was well recognised during the green revolution days but seems to have lost its thrust. Government must continue to play an important role in the generation, adaptation and dissemination of agricultural and rural technology while encouraging and supporting private, co-operative and non-governmental organisations to do the same.

E. EDUCATION AND EMPOWERMENT

95. The highly laudable success of Kerala in achieving universal literacy and high basic education levels has not been based only on public provision of schooling. Private schools have played a very important role in the achievement of high levels of human development in Kerala. The governments role in creating the right atmosphere of encouragement and helpfulness is however critical to the success of any such private effort. Unfortunately, too many state governments are more inclined to interfere in, obstruct and harass any successful private educational institution. This

must change if we are serious about universal literacy & primary education.

1 Policy Framework

96. We need to develop a framework for easy entry of co-operative and private sector into the field of education, training and skill development. Such a structure must lay down a transparent set of rules and regulations for fee setting & adjustment, transparent accounting & audit, provision of minimum facilities etc., with no scope for subsequent arbitrary action. The basic elements of this framework would be market pricing of services, a scholarship fund created through below-market-price provision of land and comprehensive system of merit-cum-means scholarships. The framework must provide for an independent and autonomous Educational Regulatory Authority (ERA).

2 Public Regulatory Body

97. Once these rules and regulations have been formulated, they must be overseen by the ERA, free from motivated government interference. Public testing and funding organisations must be modernised to meet the needs of the next century. Their role must change and from executor to planner and propagator of best practices. The regulator should also ensure transparency in fees & charges as well as greater freedom of movement for students between schools so that parents have the option of 'voting with their feet.' Curriculum formulation and revision can be de-centralised to self-regulatory organisations at each level of education (e.g. Primary, Secondary, Tertiary, Technical, and Specialised). Much greater autonomy and freedom should be given to higher education institutions, along with greater responsibility for generating revenues. Government should focus on monitoring performance and planning & co-ordinating overall educational effort.

3 Price de-Controls

98. Removal of price controls on educational institutions must be accompanied by a system of *dual pricing* for poor students. The most common and tested method of doing this is through *means cum merit scholarships*. Removal on price controls would be conditional on providing a specified (minimum) number of such scholarships.

4 Education Loan System

99. A national educational loan system can be set-up so that less well-off individuals who are not bright enough to obtain means cum merit scholarships can get loans for continuing their education. The governments contribution would be to share default risk to the extent needed to make it commercially viable for make such loans voluntarily.

5 Tax Holiday

100. The organised sector can be encouraged to enter the education sector by giving a tax holiday. This could apply to companies engaged in the business of education, training, skill development and information dissemination (extension).

6 Independent Rating Agency

101. The greatest difficulty facing parents to judge the quality of the education provided by different schools and colleges. To this will be added an additional difficulty of variation in fees, once such fees is de-controlled. To ensure that parents have adequate information for making their own decisions, an independent rating agency is needed. The rating agency would provide certification and rank private (and public) educational institutions by quality. Eminent retired educationists and venture capitalists could set it up with a one-time grant from the government.

7 Modern Testing Agency

102. The situation has come to such a pass that one cannot often trust the grades given by the official educational boards. Gross errors are sometimes made in grading exams, which are critical to the future of an individual. Sometimes recourse to re-grading or examination of the papers is blatantly refused. The country cannot afford further deterioration. The solution would be to set up a modern education testing service as a joint private-public venture, which would be run on highest standards of management, governance and social responsibility. Its board would consist of eminent and respected professionals from various fields including education.

F. OTHER SERVICES

1 Productive employment

103. One of the features of Indian poverty is under-employment or disguised employment in which people engage in informal work to survive. By the same token one of the features of economic development will be a move of this labour to more productive organised sector jobs. Our approach to the informal, tiny and small service sector is, however, a negation of these principles of development. For instance, we encourage small transport operators (killer buses!) instead of encouraging large organised bus companies who can be held accountable. Small-scale bus operators substitute low productivity self-employment for higher productivity organised wage employment. Elimination of poverty in the next decade requires us to look a little into the future. The service sector must be opened

up to the organised sector, so that modern organisation and management techniques can be introduced in this sector.

2 Quality of Services

104. Improvement in the quality of services is also necessary for improving the quality of production. High performance products require a complement of high quality services. Service quality can only improve if better-educated and trained people are available. This generally happens when the organised sector is involved, and acts as a vehicle for the spread of new technology, organisation and management into the service sector. The current system is characterised by a strong bias against the entry of the corporate sector and towards the small-unorganised sector & towards public provision. This bias should be removed, and the corporate or organised sector provided a level playing field for the supply of services.

3 Social Services

105. The current approach to private provision of social services is ad-hoc, arbitrary and based on extracting rents from any provider who is successful. Suppliers of quality services, particularly education, are subject to excessive and oppressive interference while low quality & fly by night providers remain relatively unchecked. We must develop a framework for entry of private, co-operative and joint sector in the provision of all social services. This framework should provide a stable and predictable environment that is so essential for serious long-term suppliers of social services.

4 Health: Drugs

106. If price controls are justified in the name of the poor, they should only apply to drugs that are on the list of drugs identified for the primary/basic health system. Other drugs included in the UN list of essential drugs could also be added. A *dual pricing system* could be set up for this set of drugs. The rest should be de-controlled, as price control does not benefit even the poor. By discouraging investment in new drugs and imposing regulatory costs that have ultimately to be paid by the consumer, it may harm the poor and the middle class.

5 Housing: Rent Control

107. Rent control was introduced in many countries during World War II as part of comprehensive but temporary price control and rationing in aid of the war effort. India, a British colony during the war, is probably one of the few countries, which still retains this colonial price control. Control on rental charges is a control on the price of rented residential and commercial space, and needs to be abolished. It can be phased out gradually on properties that are currently under 'rent control' to ease transition. For such property 'rent

control' on commercial property would expire in three years and on residential property in five years. During the transition period rent would be allowed to increase by the higher of 10% real (i.e. after adjusting for inflation) or Rs. 7500 per annum.⁷ The latter is essential, as many properties with a market rent of lakhs are rent-controlled at a few hundred rupees.

6 Media

108. We should distinguish facility ownership from control of content. That is there would be two types of companies, namely facility companies and broadcasting companies. Foreign investment in facility companies can be very liberal, with 100% foreign equity allowed if there is clear and effective separation from broadcasting content control. Foreign equity in companies that effectively control broadcast content would be less liberal (up to 26% say). An independent regulatory authority, which ensures equal and fair access to use of facilities by other broadcasting companies, must complement the liberal approach to facility ownership.

G. INSTITUTIONAL

1 ADMINISTRATION

a) Performance Measurement

109. Computerised management information systems should be set up for all government departments and agencies that provide an administrative service (e.g. courts, police, taxation, and municipal regulation). These would be the basis for monitoring individual cases and employees, doing statistical analysis by user and employee and providing management information. This would help in identifying and rectifying delays and bottlenecks in the administrative system.

b) Incentive structures

110. The secrecy of the ACR makes it irrelevant as a motivating device. A move from ACR to Annual Performance Review may be useful in motivating and rewarding employees. Retirement rules should also be changed to make it easier for those who get stuck at any particular level in the hierarchy to leave without losing any pension benefits.

c) Internal labour market

111. The departmental structures within the government are very rigid. Mobility could be improved by creating an internal labour market within the government. This would create a more open procedure for comparing the supply and demand for different posts, and for fitting the two better. There are currently about 41 different administrative & technical services

⁷ Maximum [Rs. 6000, 20% of rent]

(cadres) at the centre and 13 at the State level. It is therefore, necessary to breakdown the barriers created by multiplicity of separate cadres & services.

d) Planning & monitoring

112. The ideology of planning has contrasted with the pathetic lack of planning and co-ordination at the ground level. Roads are dug up within weeks of fresh asphalt being laid. Drinking water is drawn from the river downstream from where untreated sewage is dumped. The emphasis at the ground level must be changed from service provision and control to planning, co-ordination, monitoring and rewarding/ penalising. Instead of national plans that are ignored by many states after the funds have been sanctioned, we desperately need good planning at the local (below the state) level.

e) Specialisation and Expertise

113. Management of the open market economy requires much greater expertise and skills than a controlled one. A greater degree of specialisation will be required in administering such an economy.

f) Education and Training

114. Older generalist officers would also have to acquire new skills. A system of training and re-training would need to be set up with greater emphasis on modern Human Resource Development (HRD).

2 REGULATORY AUTHORITIES

115. Set up strong, independent regulatory authorities dealing with prices, quality & conditions of supply, and access or interconnection by competitors to the natural monopoly networks. Prudential/ technical registration and licensing should be completely under the purview of such authorities. They should be made financially independent by allowing them to charge regulatory fees for running the regulatory system.
116. Existing regulatory authorities should be brought to this level of autonomy by changing the law. Training should also be provided to staff to bring them up to global standards. Technical assistance and co-operation should be facilitated.

3 ECONOMIC LAWS

117. A committee of consisting of government and outside experts has identified 50% of economic laws as redundant. A start should be made, by abolishing these redundant laws. A major effort must be made to modernise, integrate and simplify the rest of the laws. To force a review, a sunset law should be passed stating that all laws enacted before independence would expire in 3 years, those enacted between 1947 & 1960 in 5 years and those between 1960 & 1980 in 8 years. A sunset clause should be included in all

future laws so that they would expire after a given time period unless they are reviewed and renewed.

4 LEGAL SYSTEM

118. The legal and judicial system has been unable to keep pace with the needs of a growing population and the increasing complexities of the commercial sector. The net result has been a surfeit of litigation and a build up of a huge number of pending cases. As per latest available estimates, pending cases number 28 million, and are growing at the rate of 8 per cent a year, implying an additional annual increase of more than 2 million pending cases a year. Among the reasons for the increase in arrears are inadequacy in the number of judges, delay in filling up vacancies and faulty appointment procedures and appointment of incompetent judges. India has one of the lowest numbers of judges per person. Vacancies are not only high but the shortfall in appointment has been rising. These vacancies must be filled urgently. Court timings must also be increased and enforced strictly. A long-term solution to this problem requires a fundamental change in the method for appointing judges. An approach worth considering is an independent judicial commission, which will appoint judges, monitor their performance and ensure their integrity.
119. The government itself is responsible for a substantial part of the pending cases, as these suffer the maximum amount of delay. A National Law School (1993) study estimated that the government was plaintiff, defendant, appellant or respondent to appeals in 60 per cent of all the suits filed. Most government cases were in the five areas of taxation, credit, rent control, urban land ceiling and labour relations. In these cases, either the government counsel does not appear or the summoned official is absent. Government advocates are known for asking for long adjournments on grounds of “seeking instructions” from the minister or the department. Very often, court orders are blatantly flouted and nothing happens till the court finds the time to pull up the concerned official. The government also makes unnecessary appeals against decisions not in its favour. Repeal of the urban land ceiling act and the rent control act, reform of labour legislation, rationalisation & simplification of tax laws and computerisation of land records could considerably improve the situation.
120. The Indian Civil Procedure Code first enacted in 1859 and after many amendments, finalised in 1908, provides innumerable opportunities to lawyers to delay proceedings. Lawyers can file applications for interrogatories, appointment of a Commissioner for local inspection, a temporary injunction and arrest or attachment of movable assets before judgement. Each application needs to be heard and disposed of (may take up to a year), before things can proceed any further. The first appeal can take as much as 3 years and the second up to 7 or 8 years if admitted to the High

Court. As applications for interim relief, take unnecessary time lawyers have started asking for it as a delaying tactic. Lawyers getting paid per appearance have an incentive to prolong the case through long-winded arguments. When the Supreme Court initiated steps to curb the time taken for oral arguments, lawyers immediately went on strike.

121. The practice of getting innumerable adjournments is a major problem. Frequent & lengthy adjournments imply that judges deal with cases in a piecemeal fashion, and often over several years. Judgements cannot be delivered expeditiously since time is needed to put the entire case together. As a result Judges also become more willing to grant further adjournments, to avoid having to go back to the history of the case, hoping that the next hearing will come up in front of some other bench. Order 17 Rules 1 and 2 of the Code of Civil Procedure (1908) provides for unnecessary adjournments by requiring that the hearing of a suit once begun shall continue daily till all the witnesses have been heard, *unless the court finds the adjournment beyond the next working day necessary*. Something that was meant to be an exception has become the rule!
122. Procedural bottlenecks like serving summons, adjournments and verbal arguments should be streamlined. The draft of a new Civil Procedure Code (1996) attempted to do this. Clauses on perjury should also be invoked; they have never been invoked since 1947. Courts must be computerised so that cases can be classified under different heads, such as labour, service, rent control, land, and assigned to judges dealing in similar, or related, areas. This system of grouping will expedite the disposal of cases, as judges hearing disputes in similar areas will enhance their expertise in these areas. This has been successfully implemented in the Supreme Court and must be urgently extended to the High courts and the lower courts and tribunals.
123. Along with computerisation, other technical aids like photocopying machines should be introduced, allowing parties to get copies of judgements on the same day that they are passed. Microfilming should be used to preserve records to save storage space.
124. The functioning of sectional tribunals and quasi-judicial authorities needs thorough review. There is a need for rationalisation or elimination of those tribunals, which have become even more dilatory than the normal courts (e.g. rent control tribunals). Strengthen alternative dispute resolution mechanisms through modification of acts like CPC, Limitation act and Indian Evidence act. Consider 'London approach' to financial & credit dispute settlement. Unify subordinate legislation on sectoral basis.

H. STATE AND LOCAL

125. Most of the issues connected with state governments have been touched on earlier. They are, however, brought together here in a summary form.

1 STATE REGULATORY AUTHORITIES

126. The need for autonomous, independent and powerful regulatory authorities (SRAs) in the infrastructure sectors and the principles on which the regulatory system must be built were spelt out in section 4.4.4. At the State level SRAs are needed for the following sectors:

a) Electricity

127. The breaking up the State electricity boards into independent production, transmission and distribution companies must be accompanied by the setting up of a regulatory authority.

b) Canals

128. State Irrigation & canal regulatory authorities must be set up to regulate the canal networks including its distribution channels as well as underground water resources. Once the framework is in place co-operative water user associations can manage and maintain these distribution channels and canals.

c) Municipal services

129. A municipal services regulatory authority should be set up with authority over all municipal services on which user charges can be imposed. Examples are water supply, sewage, drainage, public toilets, waste collection & disposal and pollutants & hazardous wastes.

d) Education

130. Education should be de-licensed and de-controlled subject to a modern system of rating, certification, testing, regulation, scholarships and loans.

2 STATE FISCAL REFORMS

a) User Charges

131. The assets created in the past have deteriorated tremendously because public services do not even charge enough to cover maintenance & running expenses. Charges must be raised in a phased manner to cover the full cost of production, so that financing of new investment becomes feasible. Raise bus fares, electricity and water usage charges to economic levels. Raise tuition fees at college level, and for health service consultation & diagnostic tests. Levy parking charges for road parking in residential areas.

b) Expenditure Priorities

132. With State finances in a dire state, there is an urgent need to re-set expenditure priorities at the state and local level. Downsize state administration and focus limited resources on public goods (e.g. law &

order), infrastructure and knowledge services with strong externalities (e.g. roads, agricultural extension, libraries) and basic social services (primary education, literacy, public health). Treat O&M expenditures as capital expenditures. Freeze net hiring to zero. Reduce size of govt staff through attrition (retirement) and reduce non-educational grants.

c) Tax Reform

133. Harmonise tax laws across states starting with a rate band, followed by a uniform rate on most goods and then move to State VAT. Harmonise and rationalise stamp duties. Restore land revenue and property taxes to rational levels. Tax agriculture income directly or through a differentiated (e.g. irrigated-non-irrigated) land revenue system.

d) Legislative Transfer

134. Transfer to local bodies, monitoring authority over all public services that are provided at the local level. The experiment of decentralising primary schooling has apparently already proved successful. This experiment should be extended to other local services. In areas in which continuous interaction of field staff with higher levels of administration is essential as in agricultural extension work, a mechanism for joint control may have to be worked out.

3 Re-ENGINEERING STATE GOVTS

135. The size of State governments must be reduced and its quality improved along the lines indicated earlier.

4 FREEDOM OF INFORMATION

136. The people must have the right to obtain information on programs and projects purportedly carried out for their benefit. Rajasthan was the pioneer in introducing a freedom of information act. Other states could improve upon this achievement.

5 De-CONTROL & De-LICENSE

a) Agriculture and Agro-processing

137. De licensing and de-control of agriculture its transport, storage and processing as well as of allied & related industries is most important for the poorest states. This must be accompanied by greater attention to basic rural infrastructure like roads, water & drainage and agricultural extension.

b) Education

138. There is oppressive control and traditional price oriented regulation of educational institutions. This has to change to a modern regulatory approach, which stresses provision of information and fraud detection & punishment.

c) State road transport

139. Road transport is vital for the development of the state from the remote rural areas to the biggest urban areas. Inter state Road transport is a state monopoly in most states and most State Road Transport organisations are loss making. Most of those making nominal profits would still be in the red if the indirect costs were accounted for. The state monopoly of road transport increases the cost of transport, reduces its quality & variety and distracts the government from its true responsibility for making roads.
140. Road transport should be completely de-licensed, with a modest registration fee for regulatory purposes. Revenues should be collected through a service tax within the overall tax policy framework, and not through license fees. A regulatory authority can be set up to manage the transition to a free and competitive system.

d) Urban Land Ceiling & Rent Control

141. The States must follow the example of the Centre and complete abolishing of the Urban Land Ceiling Act. State Rent Control acts should be repealed or phased out by first replacing them by the 'Model Rent Control Act.'

6 RURAL LAND REFORM

142. Liberalisation of land ceiling and tenancy laws for development of degraded land and in areas of modern farming. In semi-feudal areas traditional land reform should be enforced. It can be bundled with services such as micro-credit and technology dissemination, and taken up as a package on a district-by-district basis.

7 COOPERATIVE LEGISLATION

143. The central role envisaged for co-operatives in rural empowerment and development has not been realised. The co-operative system needs to be freed from the clutches of government and the political system within the context of a modern regulatory system. A few states have already amended their acts to make it possible for individuals to create co-operatives that are totally independent of the government. These co-operatives should be subject to a modern independent regulatory authority that focuses on information & disclosure and fraud detection & punishment. The new act should empower such regulatory authority to lay down accounting & auditing standards and requirements so that it can enforce the right of all members to financial & related information. The government should only be able to impose conditions if and when it gives grants & loans and only during the relevant time period.

8 STATE POPULATION POLICY

144. With the severe financial crunch, States have little funds for maintaining public services at historical levels. They have none for extending these services to an expanding population. A change in attitude and approach of State governments, with little addition to funds, could go a long way in moderating population growth.

9 URBAN & MUNICIPAL REFORM

145. Laws, rules and procedures relating to land use, construction, housing, urban utilities and urban services have not changed for fifty years and perhaps even longer. They must be systematically modernised, if we are to see a real estate boom. Such a boom has been an important source of growth in many high growth countries.

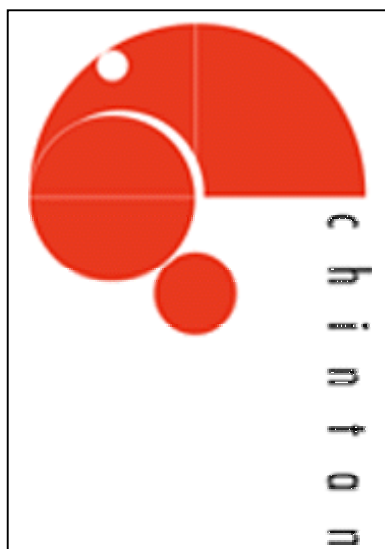
10 STATE POLICY PAPERS

146. Each state should prepare its own paper on 1st and 2nd phase reforms. Perhaps the Planning Commission could take the initiative, by having a model paper on State reforms prepared by an expert group or committee.

CHINTAN POLICY PAPER SERIES**

Policy Paper No.	<u>TITLE</u>	<u>DATE</u>
1.	Policy Measures for Meeting Capital Inflow Surge,	March 1997
2.	An Agenda For Tax Reform,	May 1997
3.	A New Foreign Exchange Act,	June 1997
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6.	A Communication Policy For the 21 st Century,	November 1998
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8.	Urban Infrastructure, Real Estate & Housing Policy,	May 1999
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12.	Agenda for Reforms: Fiscal,	October 1999

** Copies of these papers can be obtained by sending an e-mail to DrAVirmani@hotmail.com.



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