

Stanford | King Center on
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Conference on Indian
Economic Policy:
Priorities for the New
Government**

Redesigning social policy for India

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India's broad frame for social policy

Was designed at a time when

- India was one of the poorest countries in the world
 - Starvation and famines were just around the corner
- The private sector was small and the government had little faith in it, rightly or wrongly
- The economy was highly controlled and almost fully closed

In such a context

- It made sense for the main redistributive tool to be PDS
 - Prevent starvation
- It made sense for the government to create a whole infrastructure to procure, transport and sell grains
 - Since the private sector could not be trusted to do it
 - Since imports were not an option
- It made sense for the government to provide education and health care
 - And to focus on saving the lives of mothers and children within healthcare
 - And getting children into schools

A reset is long overdue

- We are lower middle income country with a host of new problems
 - Partly because we have solved many of the old problems
- Our approach to policy making
 - Recognizes some of these new problems but often only in part
 - Ignores inconvenient facts
 - Responds piecemeal
 - Proliferation of schemes—several every budget
 - Over four hundred schemes—nobody knows exactly how many
- What should be our priorities for today?
- We will discuss five critical issues that we are getting (mostly) wrong

Some general guiding ideas

- State capacity is scarce
- Resources are scarce
 - We need to raise our tax collection, especially of direct taxes.
 - Higher marginal rates, especially on profit incomes
 - Broader tax base
 - Better enforcement
 - But we also need to spend enormous amounts on infrastructure
- We are risking falling into a middle income trap
 - Poor human capital, low quality infrastructure, poisoned environment
 - We grow despite them, not because
 - Riding on the fact that we start from so much misallocation.

1. Education

- Almost all our children are in school
 - This is a major achievement
- However they are not learning much
 - More than half of 5th graders are at second grade level in math
 - Most of them get stuck well behind grade level and stay there
- Our PISA scores were so low that the government blocks participation in it
 - And uses the fact that we have no recent PISA scores to refuse accept our human capital ratings!

Much of the diagnosis of the problem

As reflected in the Right to Education Act, assumes that

- Resources are the constraint
 - Better infrastructure
 - Better paid teachers
 - More teacher training
- Absolutely no evidence for any of them
 - Our teachers are among the best paid in the world, relative to per capita income
 - Doubling teacher salaries has no effect on learning
 - Many studies of training and or infrastructure find no impact

The alternative diagnosis

Is we need more incentives

- Privatization is happening one way or the other
 - Will save money
 - No evidence that it will improve learning by much, if at all
- RTE is designed to undermine private schools, reducing the pressure on the public school system to improve
- Mixed evidence on incentives for public schools

The real problem

Is our colonial model of teaching

- We set an absolute standard, set by a syllabus, irrespective of children's background and the teacher's capacity to teach it
- Children get lost, and once lost, are offered no help to catch up
 - "Weak" students
 - "I don't believe in No Child Left Behind", a former HRD minister told me
- They learn very fast as long as they are "Taught at the Right Level" (TaRL)
 - By unpaid volunteers, or by schools teachers who are told that this is their job.
- Consistent with evidence that in terms of innate skills they are as good

Our proposed solution

- Remove all input requirements in RTE
- Replace it by an outcome based regulation
 - Based entirely on basic skills until grade 6
 - Can they read, do basic math, etc.
- Think of moving to vouchers, shrink the government schooling system
 - Since nobody wants to go government schools
 - Many states are already doing this, since many schools are empty.
 - Adjust hiring downwards
- Pour more money into secondary schools
 - Making it possible to hire better teachers
- Many echoes of these ideas in the New Education Policy, issued this week

2. Healthcare

- We are heading into a NCD crisis
- Partly as a result of increased longevity
 - Combined with childhood malnutrition
- We are making slow progress against malnutrition
- Antibiotics resistance is rising

Our focus right now

- Is on tertiary care
- PMJAY is an attempt to defray the cost of tertiary care
- It is not yet clear how it will work
 - Need pricing for every package (heart attack, treated with ...)
 - 5,000 packages is their estimate
 - Who will figure out the pricing?
 - In the US thousands of people do this for Obamacare
 - How will fraud be checked?
 - RSBY was shut down because of excessive fraud
- If it works it will improve welfare but probably not save lots of lives

What we urgently need

- Better primary care
 - Earlier detection
 - More credible advice from healthcare providers

The problem

- 77% of private providers in rural areas have no medical degree, 18% have some other degree (BAMS, BIMS, BUMS, BHMS) and 4% have an MBBS degree
- Average village: 3.36 providers with no degree, 0.80 with some degree, 0.18 with MBBS
- Public providers more qualified, and offer free services, but have ~20% market share
 - increases to 35% in villages with a public primary healthcare center
- A large majority of providers are practicing medicine illegally
- There is no way to engage with them: “wink-wink”
- They are the main channel for communicating healthcare information

Our proposed solution

- Recognize the presence of these providers
- Regulate them by frequent tests of competence
- Require that they display their certificates
 - People vote with their feet
 - They pay (much) more to those who they regard as more competent
 - In return those who are more trusted do much more for their patients
 - Measured by time spent or checklist completion
- Crackdown on prescribing new generation antibiotics and steroids
 - More enforceable if the practitioners can be paid for their time (rather than for medicines)

Jobs

- We are not creating anything like the jobs we need
 - By anyone's estimate
- And yet there is a widespread perception among industrialists of a shortage of the kind of labor they want
- And our labor costs are reported to be high
 - Even in white color jobs
 - Where there is remarkably little protection
- How could that be?

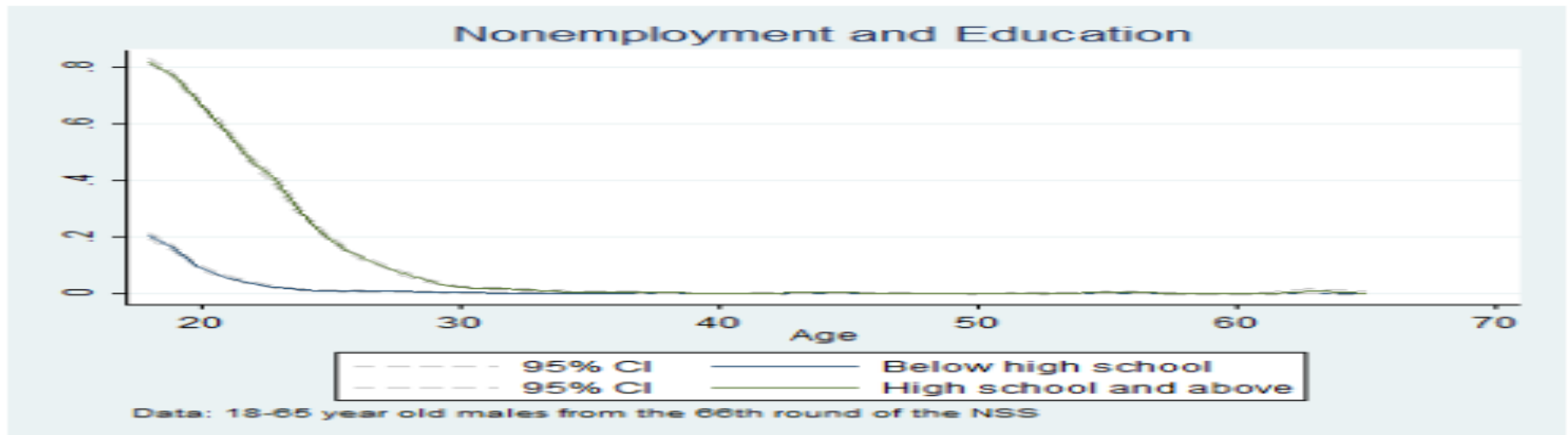
The recipe

- Attract foreign capital (“make in India”)
- Export promotion: “get into the global supply chain”
- Infrastructure
- Rationalize labor laws
- Reform the banking sector
- Ease of doing business
 - Real improvements

A lot of truth in these but they cannot explain

Why there is a perception of a labor shortage. The answer is:

- Labor force participation among women is falling
 - This is the group that is increasingly occupying white collar jobs world wide
- And neither men nor women want the jobs on offer.



As a result

- Turnover is high
- Worker attitudes are bad
- Training is wasted
- This is a big reason why labor is expensive

The source of the problem

Is that for anyone who has completed high school the target is a government job: almost nobody wants to be micro-entrepreneurs



This is because

- Government jobs are very cushy jobs
 - High salaries (teachers make 4-5 times what they would make in the private sector)
 - Benefits
 - Leave
 - Lax hours
- As a result people would rather take competitive exams than work
 - 28 million applied for 90,000 low level railway jobs
 - Explains why only those with ten years of education are not working
- Until they are too old to take tests: then they work

At the same time

- It is unlikely that the private sector will create the jobs our youth want any time soon
 - With or without reasonable amount of reforms
- The jobs are too cushy
- But even normal jobs are unlikely to grow nearly as fast as we need
 - With or without all the reforms
- The problem is:
 - Labor costs are a small part of total costs in manufacturing
 - Scale economies both inside the firm and inside production networks enormously important
 - And brand-names and reputations count for a lot

What can we do now?

- Do our best to make it easy to create jobs
 - Real Special Economic Zones (not just for exports) with plug-in access to
 - Transport infrastructure
 - Land
 - Environmental clearances
- Make government jobs (a lot) less cushy
 - Make a five year apprenticeship mandatory for all government jobs
 - Make the wage for an apprentice comparable to market wages
 - Make promotion to a permanent job based on performance during the apprenticeship
- Give people five chances to apply for a government job
 - All applications have to be within two years.

This will

- Cut the cost of government jobs at the entry level
- Makes it possible to hire many more who can be posted to rural areas and small towns.
 - Our government is too small especially, in those areas
- Increase the number of young people working and gathering experience
- Reduce the obsession with getting a government job because it comes with five years or uncertainty

4. Social protection

- Our social protection is designed around
 - MGNREGA
 - PDS
- Both targeted towards the poor
 - Offer little protection for those who are not poor but are subject to large often because of our policies
 - Middle farmers for example
- Many angry people:
 - Farmers
 - Various caste groups that feel threatened by the combination of the shortage of good jobs, for their next generation to exit agriculture and reservations for others

The current response

- Piecemeal bailouts--loan write offs, etc.
- Expanding reservations till they include everyone
 - Will hit the Supreme Court soon
- Inefficient subsidies with disastrous consequences
 - Fertilizer
 - Power/water
- Avoidance of necessary changes because of the risk of pushbacks
 - Stubble burning in Punjab and Haryana

Where we need to be

- Many economic shocks are beyond individual control and therefore can be insured
 - Shifts in world prices
 - Weather
- Other have large distributional effects and should be compensated
 - Trade policy
 - Inflation targeting
- We do very little as yet.
 - PMFBY is not working particularly well
 - Because of a lack of reliable measurement of production

A new social compact

- The government acknowledges that it imposes large costs on specific groups in the pursuit of overall efficiency
- And that some shocks are beyond individual control
- It sets up a mechanism for identifying these groups based on where they are located and what they produce
 - Insulated from political pressure as far possible
- Sets up a national body for paying compensations
- This should use the JAM Trinity developed by the current government to identify where people are located
- Pay every farmer or resident in the most affected blocks a compensation

5. Urbanization

- We are urbanizing
 - In particular lots of small towns are turning into cities and many villages are turning into towns
 - We have villages of 10,000
- This is a disaster in the making
- Once there is bad infrastructure its very hard to fix it
 - Lots of hysteresis
- We need to act now

The current approach

- Neglect
- If we talk about anything we talk about resources.
 - The trillions we need and don't have
- And the political impossibility of implementing the 74th amendment

This is not a choice any more

- We are facing disasters from all sides
 - Unlivable cities
 - With mounds of trash that has nowhere to go
 - And no modern water supply or sewers
- The 74th amendment is key
 - because we need good people to be city managers with control over whatever they need to control to deal with these issues
 - because we need cities to borrow and do so within a federal framework
 - and sell land strategically to raise resources
 - And collect real estate taxes to fund the government

Conclusion

- We have done well, even surprisingly well given the many constraints we face
- This is why we now face a different set of problems
- We need to deal with them or they will pull us down
- We can do it, as long as we recognize the magnitude of the challenge that we face and have the resolve not to look for easy options

Thank you for listening to me