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ARTICLES

Indian Agriculture @ 75: Past Achievements and Future Challenges
RITIKA JUNEJA, RANJANA ROY & ASHOK GULATI 01

Moving Towards a World-Class GST
VIJAY KELKAR, ARVIND DATAR, RAHUL RENAVIKAR 19

Securing the Future: Strategizing Child Development in Karnataka in the Aftermath of COVID-19
ARNAB MUKHERJI 32

Bureaucratic Indecision and Risk Aversion in India
SNEHA P, NEHA SINHA, ASHWIN,
AVANTI DURANI & AYUSH PATEL 55

Fault lines, Litany of Blunders in the Federal Union of States
Review article on "India – A Federal Union of States: Fault Lines, Challenges and Opportunities" by Madhav Godbole
M GOVINDA RAO 88

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Indian Agriculture @ 75
Past achievements and future challenges

Ritika Juneja* **Ranjana Roy**** **Ashok Gulati*****

Abstract

India has experienced significant transformation in its economy since independence, especially agriculture. From a severely food-deficit nation during mid-1960s to a self-sufficient one, and becoming the largest exporter of rice and the largest producer of milk in 2020-21 is not a small achievement. Similar break-throughs have been achieved in poultry, fishery, fruits and vegetables, and cotton. All this was made possible with liberal infusion of modern technology, institutional innovations that made small holders part of this change, and enabling right incentives to cultivators. This holds lessons for many developing countries in south and south-east Asia as well as in African continent. But India still faces many challenges on food security front. Malnutrition rates amongst children remain high, and agricultural production begs the question of sustainability as water table in most parts of the country is falling rapidly. Also, the food system needs to move from 'tonnage centric to farmer centric' as incomes of agri-households remain pretty low, largely because of small holding sizes. It is high time that India opens up land lease markets, build efficient supply chains with Farmer Producer Organisations by infusing digital technologies to unleash next technological revolution that promotes efficiency, inclusiveness, and sustainability in agriculture through precision agriculture.

Keywords: Agricultural production, Food security, Agricultural productivity, Sustainability

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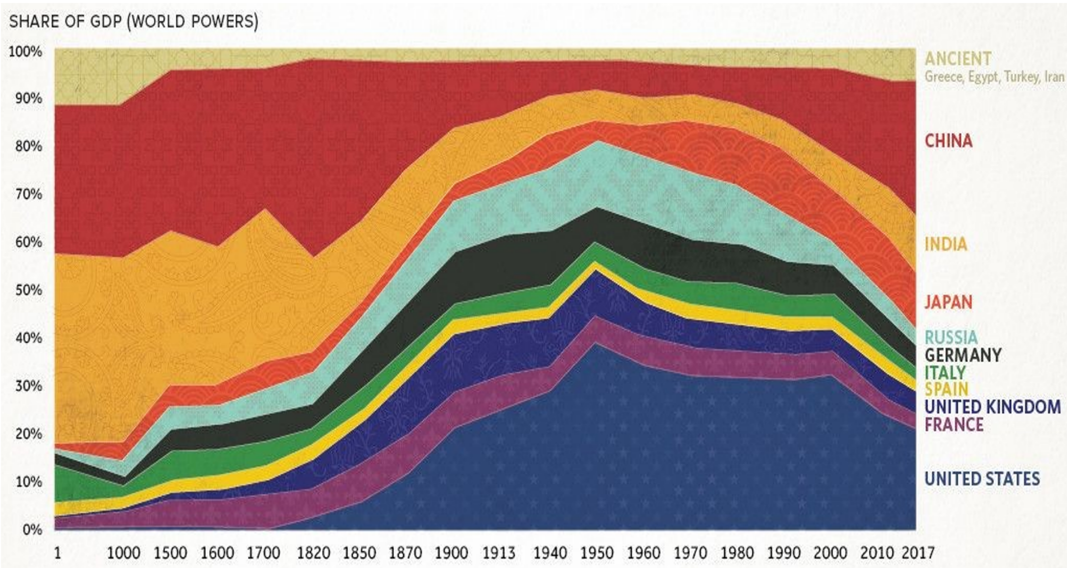
I Introduction

India is one of the oldest civilisations in the world with incredible cultural diversity and rich economic history. Its economic performance since the beginning A.D. 1 was phenomenal. According to Angus Maddison, a British economic historian, India was the largest economy of any region in the world by gross domestic product (GDP) and purchasing power parity (PPP). In A.D. 1, India's contribution to the world's GDP was highest at 33 per cent [Figure 1]. However, as Britain's East India company began to grow in India in the mid-17th century, a phase of decline set in. The decline accelerated as the East India company handed over its operations to the British Crown (the Queen) in 1858, after the first war of independence broke out in 1857 in India (the British called it a rebellion) (Gulati, et al. 2021). The British Raj used India as its richest colony, as a source of raw material supply as well as a market for feeding Britain's industrial revolution. By the time India got freedom from the British in 1947, India was a poor economy.

Figure 1: Percentage share in World GDP



Source: "Statistics on World Population, GDP, Per Capita GDP, 1-2008 AD", Angus Maddison; IMF (visualcapitalist.com)

Partition and Tryst with Destiny

At the time of independence in 1947, India's population was subject to frequent famines, had one of the world's lowest life expectancy, suffered from pervasive malnutrition and was largely illiterate. Partition had made things worse. The country was faced with a challenge to feed 347 million people, while the grain production at that time was just 45 million metric tonnes (MMT) (Chopra, 1984). Shortage of basic staples and negligible foreign exchange reserves to buy grains from global markets on commercial terms, pushed the country into an unprecedented 'ship-to-mouth' crisis by mid 1960s when India was faced with a back-to-back drought. USA's help under PL-480 program to supply almost 10 MMT of grains per annum at that time saved millions of lives. This experience also sowed the seeds of the green revolution.

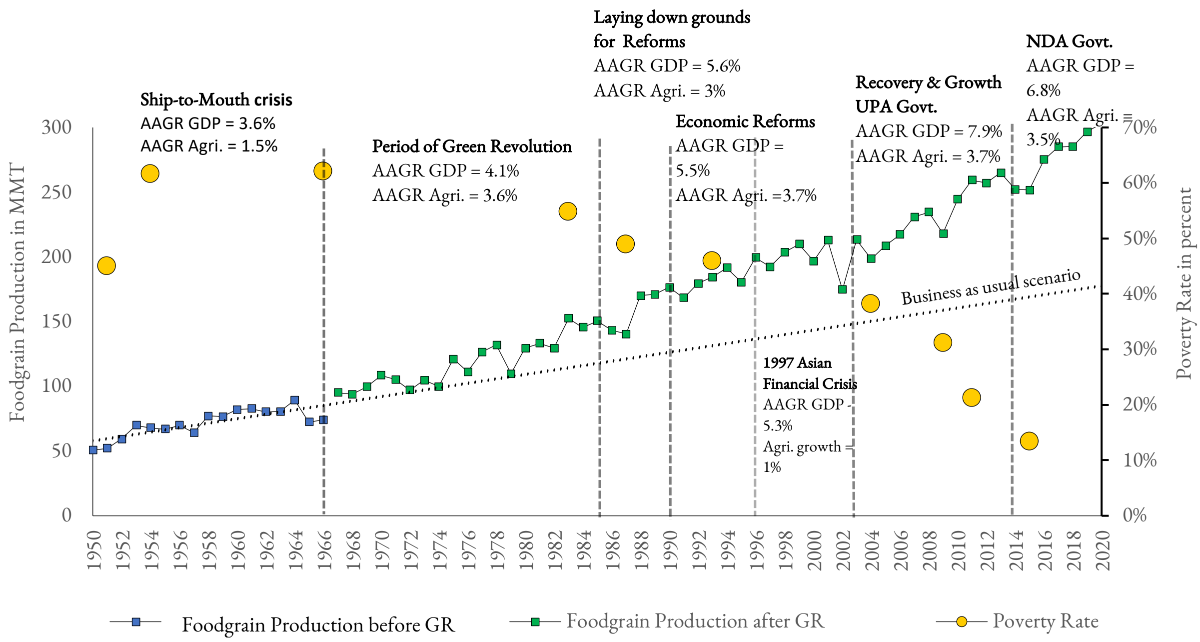
During 1951-52 to 1966-67, the overall growth in GDP remained at a low level of 3.5 per cent due to a very high share of agriculture in overall GDP and lacklustre performance of agriculture (just 1.5 per cent per annum). With population growing at almost 2 per cent per annum during this period, the per capita growth was a meagre 1.5 per cent per annum. This despite the economic strategy of heavy industrialisation that Jawaharlal Nehru followed since the second five-year plan (1956-57 to 1961-62).

Since then, India has come a long way becoming the sixth largest economy in the world in 2020 in US current dollar terms (IMF, 2019), and the third largest after China and the US in purchasing power parity (PPP) terms at 2011-12 prices. Furthermore, economic growth, measured in terms of the average annual growth in GDP has accelerated from 5.4 per cent during the 1980s to 5.6 per cent in the 1990s to 7.5 per cent during the decade of the 2000s, and remained roughly at 6.7 per cent from 2011-12 to 2019-20 (National Accounts Statistics, 2019). This increase in overall GDP growth rates also resulted in rising per capita incomes, leading to a gradual decline in extreme poverty in India. Measured by a per day per capita income of USD 1.9 (at PPP of 2011-12 prices), the head count ratio (HCR) gradually declined from more than 70 per cent at the time of independence to 54.8 per cent in 1983 to 45.9 per cent in 1993 to 38.2 per cent in 2004 and to 13.4 per cent in 2015 (World Development Indicator, 2019). As per recent estimates, poverty HCR lies somewhere between 8.1 and 11.3 per cent in 2017 (Gulati, 2021).

From Food Scarcity to Surplus

On the food and agriculture front, India has experienced an impressive transformation from being a 'begging bowl' during the mid-1960s to a food sufficient and a food surplus one. With the introduction of miracle seeds of wheat and rice in 1966, a noticeable acceleration in agricultural production and agri-GDP growth was recorded. Agri-GDP, accelerated from 1.5 per cent during 1951-52 to 1966-67 to 3.6 per cent per annum between 1967-68 to 1983-84. The food grain production increased to more than double from 74.2 MMT in 1966-67 to 152.3 MMT in 1983-84 [Figure 2]. Overall, the economy also showed signs of improvement, registering a growth of 4.1 per cent per annum. Not only this, India also emerged as the largest producer of milk, cotton, pulses and spices; second largest producer of wheat, rice, fruits and vegetables; third largest producer of eggs; and the fifth largest producer of poultry meat. It is also the largest exporter of rice, spices, and bovine meat. All this became possible with the infusion of modern technologies supported by right incentives and institutions. Most critical of all, remains the adoption of high-yielding variety seeds of wheat and rice, along with irrigation, fertilizers, and positive price policy that ushered in the famous Green Revolution in India. In 2020-21, food grain production is estimated to touch 309 MMT with India continuing to be the largest exporter of rice (17.7MMT) in the global market that hovers around 45 MMT.

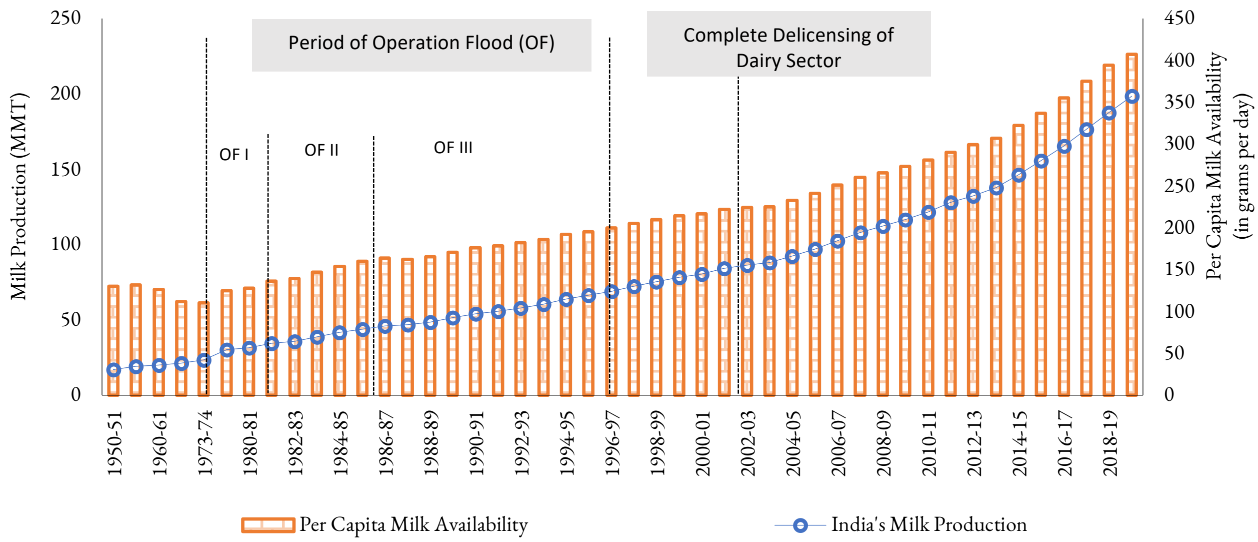
Figure 2: Economic and Agriculture performance indicators



Note: Average Annual Growth rate (AAGR) of India's Gross Domestic Product (GDP), Agriculture Gross Value Added (GVA) and Per Capita Income (PCI) is calculated at constant 2011-12 prices.
Source: The World Bank,2019; GOI 2020; MOSPI 2021

This was followed by the White Revolution in the dairy sector during the 1970s through to the mid-1990s. The institutional innovation of `Operation Flood' significantly transformed the system of milk collection from smallholders under a co-operative structure, homogenisation, pasteurisation, and distribution to mega cities as far as 1,800 kilometres away. The innovation allowed transportation in bulk coolers designed to keep the temperature controlled at 3.9 degrees Celsius, through an organised retail network (Gulati, Paroda, Puri, Narain, & Ghanwat, 2021). Milk production in India increased from 23 million MT in 1973-74 to 208 MMT in 2020-21 securing the top spot in the world, followed by the USA whose milk production hovered around 100 MMT.

Figure 3: Production and Availability of Milk in India

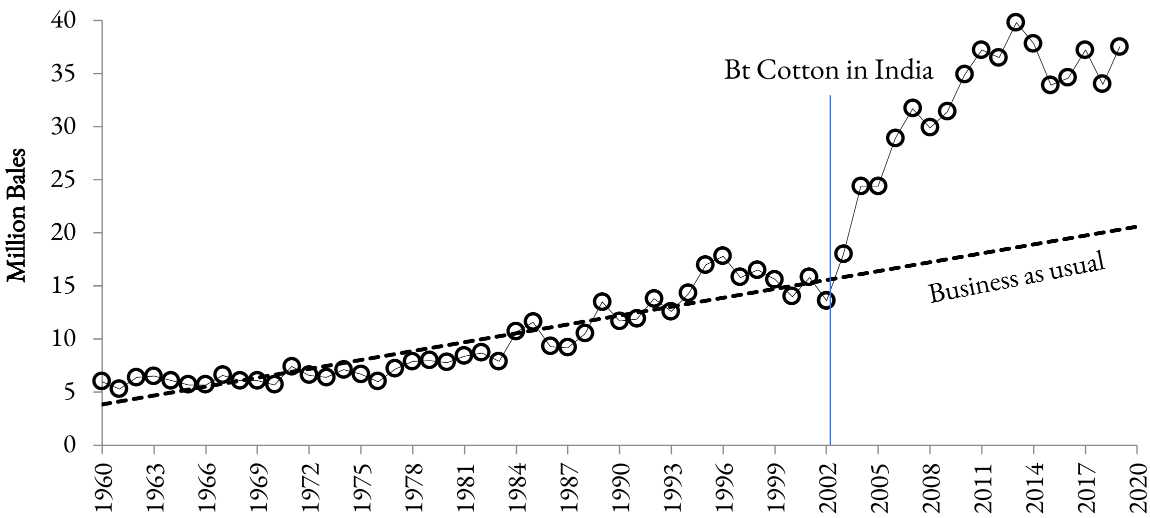


Source: DoAHD&F (2020)

Within livestock, India's poultry sector experienced a remarkable transition from a backyard system in the seventies to an integrated and commercial industry, largely driven by the private players. The institutional innovation of contract farming and vertical integration of farm operations made poultry one of the fastest growing sectors in India between 2000-01 and 2019-20, registering an estimated growth of around 10 per cent per annum. Besides this, owing to the massive coastline of over 8,000 kms and a vast network of rivers, the fisheries sector also witnessed significant growth of about 4.5 per cent between 2000-01 to 2019-20 (Department of Fisheries, 2020) and has contributed about 14 per cent share in India's agricultural exports (in FY 2020-21).

Infusion of Bt (Bacillus thuringiensis) technology is another remarkable success story in Indian agriculture that ushered in the famous Gene Revolution. The effect of fertilizers, seed technology and insecticides made India the largest producer of cotton in the world with doubling output from 13.6 million bales in 2002-03 to 37.5 million bales in 2019-20 [Figure 4], resulting in India surpassing China in 2014-15 to become the largest cotton-producing country in the world (DCD, 2017). Currently, Bt cotton cultivation covers more than 90 per cent of the total area under cotton in the country.

Figure 4: Cotton Production in India



Source: USDA, 2019-20

Another sector where India is making a significant impact is horticulture (Fruits, Vegetables, Spices, Floriculture). The sector contributes the largest share of 21 per cent in the total agriculture value of output (2018-19) (MOSPI, 2021). The National Horticulture Mission (2004-05) played an important role in the development of this sector making India the second largest producer of fruits and vegetables globally, next only to China. According to the 2019-20 estimates, fruit production has crossed the mark of 100 MMT, up from 28.6 MMT in 1991-92, while vegetable production has increased from 58.5 MMT to 189.4 MMT over the same period.

Over the last few decades, the revolutionary transformations enabled India to achieve the much-needed food, feed and fibre security, which can inspire many developing countries. However, Indian agriculture is not free from perils. It faces serious production risks due to climate change as the country experiences "prolonged droughts in the Deccan plateau states of the west and southern peninsula and floods in the Himalayan foothills from melting glaciers in the Himalayas" (Gulati, Kapur, & Bouton, 2019). Agriculture is still volatile and depends heavily on rainfall. So, the farmers always have the fear of crop failure and income volatility.

Recent IPCC report predicted that temperature in India will rise in the range of 0.5–1.2 degree Celsius (°C) by 2020, 0.88–3.16°C by 2050 and 1.56–5.44°C by the year 2080. This will have drastic consequences on crops, lowering the yields by 4.5 to 9.0 per cent, depending on the magnitude and distribution of warming (NICRA, 2018).

Another challenge for Indian agriculture is to reduce the number of cultivators in agriculture to arrest the shrinking size of holdings, which has already come down from 2.3 hectares (ha) in 1971-72 to less than one hectare (0.9ha) in 2018-19. Normally, with structural transformation, the labour force shifts away from the agricultural sector towards a more productive industry and service sector. But in India this structural transformation has been rather slow. While the share of agriculture in GDP declined steadily from 29 per cent in 1990-91 to 15 per cent in 2018-19, the share of workforce engaged in agriculture declined from 63 per cent to 43 per cent (World Bank) over the same period, implying low labour productivity. Thus, the need of the hour is to develop such an agri-food system that not only produces enough food, feed and fibre, but also provides safe and nutritious food that is environmentally sustainable.

II Reforms and Economic Growth

In 1984, Rajiv Gandhi took office after the assassination of Indira Gandhi. In the early years of his terms, he sowed the seeds for economic liberalisation and gave a new direction to political debates. The economic growth during 1984-85 and 1990-91 was recorded to be 5.6 per cent per annum. However, before the full-fledged implementation of the reforms, Rajiv Gandhi was assassinated, and the country landed in a serious economic crisis in July 1991. During 1991-92, growth plummeted to 1.1 per cent and inflation soared to more than 13 per cent. It is at this juncture, in July 1991, that India ushered in economic reforms, steering the country away from a regime of controls and protectionist policies to a somewhat market-oriented system. The growth rate of the Indian economy accelerated to 5.5 per cent per annum between 1991-92 and 1996-97. However, the year was followed by the Asian Financial Crisis that gripped much of East Asia and Southeast Asia beginning in July 1997 and raised fears of a worldwide economic meltdown due to financial contagion. The deceleration in agricultural growth started from 1997-98 with global food prices plummeting and India being hit by a severe drought in 2002-03. Agricultural GDP grew by a meagre rate of 1 per cent per annum (between 1997-98 and 2002-03). The UPA government came in power in 2004, and worked towards economic stabilisation. Soon a period of recovery and growth followed. Under the UPA government (2004-05 to 2013-14) the overall GDP registered a growth rate of 7.9 per cent per annum and agri-GDP grew at 3.7 per cent per annum.

India and Her Neighbours

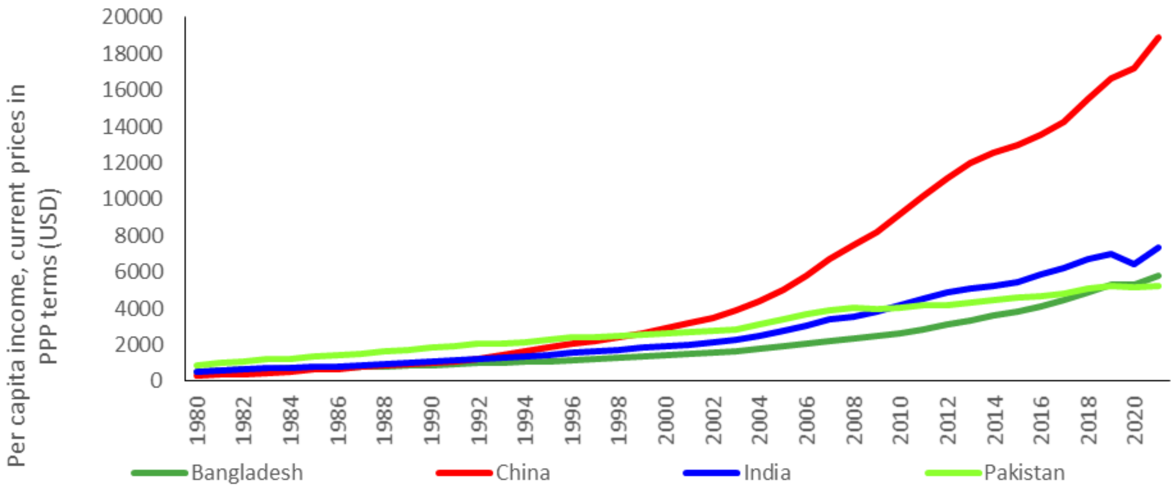
As Indians, we feel proud of India's development journey over the last 75 years. India made substantial progress in economic growth, reduction in extreme poverty, and producing enough food for Indians to have food security, although nutrition security still remains a challenge to be met. But it is interesting to explore how other nations who started with similar base or even worse conditions have performed.

Let us begin with India's adjoining neighbours, who were very much part of India in the pre-independent era, namely Pakistan and Bangladesh. In terms of per capita income, India has certainly done better than Pakistan. India's per capita income in US dollar terms was reported to be USD 1,930 in 2020 (and USD 6,510 in current purchasing power parity (PPP) terms), compared to just USD 1,250 (and USD 5,150 in current PPP terms) for Pakistan. On the other hand, Bangladesh that became independent much later in 1971, recorded per capita income of USD 1,960 (and USD 5,290 in current PPP terms), which was slightly higher than even India at least for the year 2020 in current USD terms (although India is higher in PPP terms), and much higher than Pakistan (International Monetary Fund, 2021).

Even more interesting is India's comparison with China. As many would know, both nations kick-started their journey as independent nations after a long struggle for freedom in the late 1940s. They both undertook a series of economic reforms but followed different growth models. In 1947, India chose to be a full democracy and a nation of equals, while China chose a system where choices were limited to a few. Before the 1990s, India outstripped China in terms of per capita income (at PPP) [Figure 5]. The turnaround came in 1992, when China's per capita income increased from USD 966.5 in 1990 to USD 1241 in 1992 vis-à-vis India's per capita income rose from USD 1,101 in 1990 to USD 1193.5 in 1992 (International Monetary Fund, 2021). The trend continued and in 2020, India's per capita income (at PPP) was recorded as USD 6461.5 compared to USD 17191.7 in China. This has led to a certain strand of discourse that questions the structure of democracy in India for being challenging for the implementation of policy changes / reforms (Gulati & Fan, 2007). It may be worth noting that China also imposed a one-child norm in 1981 that continued till 2016. As a result of this, their per capita income growth was much faster than India's. Also, a point to be noted is that China started off its economic reforms in 1978 with agriculture, dismantling the commune system and introducing household responsibility system in agriculture and somewhat liberating the output markets of agriculture. As a result, agriculture GDP grew by 7.1 per cent during 1978-84, and farmers' real incomes increased by almost 15 per cent per annum. This not only reduced poverty dramatically but also provided demand for industrial products, triggering a manufacturing revolution in China through its town and village enterprise (TVEs).

Comparing India's performance with respect to socio-economic indicators such as life expectancy at birth, literacy rate, and women's education reveals lagging performance of India compared to both China and Bangladesh. According to the World Bank estimates, in India, life expectancy at birth was reported to be 69.4 years compared to 72 years in Bangladesh and 76.7 years in China (2019). In terms of education, adult literacy rate in India was at 74 per cent in 2019 compared to 75 per cent in Bangladesh and 96.8 per cent in China (World Development Indicators, 2019). For females (aged between 15 years and above), India's literacy rate was even lower at 66 per cent compared to 95 per cent in China and 72 per cent in Bangladesh (World Development Indicators, 2019). Thus, after achieving several milestones in the course of this long journey of 75 years since Independence, India's crucial target over the next decade or so should be to achieve the standards of its neighbours, especially China and also learn some lessons from Bangladesh in terms of these human development indicators. In this context, it is important to remember that China started its reforms with agriculture early on, while Bangladesh by navigating a similar route has evidenced an impressive growth trajectory. India, however, till date has been avoiding large scale agricultural reforms. But to achieve the dream of becoming a manufacturing-led economy, India needs to leverage the purchasing power of its rural people, and hence work towards augmenting rural incomes.

Figure 5: Per capita income, in PPP terms (USD)



Source: International Monetary Fund, 2021

To do this, India should focus on increasing productivity by not distributing freebies but by investing in education, skills, health and physical infrastructure, besides much higher R&D. Further, given that India is a natural resource constrained country, and the constraints are likely to become more severe with the massive increases in population and the greater consumption it should start thinking towards policies in the broader context of natural resource management. One of the important measures is to break the archaic subsidy syndrome, otherwise the constraints will be magnified and become graver as the existential threats posed by climate change become more manifest (Gulati, Kapur, & Bouton, 2019).

Moving from tonnage (production) to Farmers' Income

The NDA government took over in 2014-15. It was hit by a back-to-back drought in 2014-15 and 2015-16. Yet, it could get an agri-GDP growth of 3.5 per cent from 2014-15 to 2019-20. In 2016, Narendra Modi announced his 'dream' of doubling farmers' income by 2022 at a kisan rally in Bareilly, Uttar Pradesh. Initially it was not clear whether it was a political statement, or a policy measure followed by a proposed plan of action. But the statement assumed a serious note when former Finance Minister Arun Jaitley reiterated this in the budget speeches of 2016-17 and 2017-18. A committee was set up under the chairmanship of Ashok Dalwai to formulate a strategy to double farmers' income. The committee submitted its final report containing 14 volumes to the government of India in 2018. The report set a target to double farmers' real income (DFY) in seven years i.e., by 2022-23 over the income level of 2015-16. To attain the target within the mentioned timeline, farmers' real incomes needed to grow at 10.4 per cent per annum.

This received a lot of attention from academic circles as well as the opposition. An estimate of agricultural household income is the most important indicator of the wellbeing of farmers but until very recently, the tonnage centric indicators (production, yield, value of output) were the parameters used to determine the situation of Indian agriculture. This pledge gave an opportunity to uplift the situation of farming households but it was also necessary to set an attainable goal. The main objective was to examine the level and composition of farmers' incomes and see whether it was possible to achieve such an ambitious goal. In real terms (applying consumer price index for Agricultural labour (CPI-AL) in 2020-21 prices) farmers' incomes grew at 3.5 per cent per annum in the period of 2002-03 to 2012-13. The National Statistical Office (NSO) has released its Situation Assessment Survey (SAS) of Agricultural Households for the year 2018-19. Hence, the recent release of the SAS 2018-19 offers a mid-term assessment of PM's promise.

Data Source for Analysis of Farmers' Income

The National Statistical Office (formerly known as National Sample Survey Organization), Ministry of Statistics and Programme Implementation conducts large sample surveys of agricultural households titled "Situation Assessment of Agricultural Households (SAS)" in regular intervals. The survey provides various estimates based on a wide range of information relating to the situation of agricultural households in India. Some important indicators covered in the survey being: income, productive asset, indebtedness, farming practices, awareness and access to various technological services. This survey is available at three points of time: 2002-03 (59th round), 2012-13 (70th round) and 2018-19 (77th round). In 2015-16, a similar survey was conducted by the National Bank for Agricultural and Rural development (NABARD) and is named the NABARD All India Financial Inclusion Survey (NAFIS).

There are small differences across all NSO and NABARD surveys in the definition of "farmer" as well as their coverage. In 2002-03, a farmer was defined as a person who operates some area of land and is engaged in agricultural activities in the last 365 days. To eliminate households with trivial agricultural production from the coverage of agricultural households, an income cut-off from self-employment activities was included as the basis of defining agricultural households in the following survey rounds of 2012-13 and 2018-19. In 2012-13 (2018-19), "Agricultural households are those who receive value of produce more than Rs. 3000 (Rs. 4000) from agricultural activities and have at least one member self-employed in agriculture in the last 365 days" (NSS Report No 587). This income cut-off has been updated by adjusting for inflation for identifying agricultural households in the 77th round. In NAFIS 2015-16, Agricultural households are those who receive a value of produce of more than Rs. 5000 from agricultural activities and have at least one member self-employed in agriculture in the last 365 days. As farmers' data is only available at four points of time, scholars are left with no choice but to use these surveys for analysis, disregarding these minor differences in definitions.

Trends and Composition of Farmers' Income

In 2002-03, an average Indian farmer earned Rs 2115 (Rs. 6830 in 2020-21 prices), which increased to Rs. 6426 (Rs. 9672 in 2020-21 prices) in 2012-13 and further to Rs. 10,218 (Rs. 11,572 in 2020-

21 prices) in 2018-19 [Figure 6]. Agricultural household income increased in both nominal and real prices but the rate of growth has not been satisfactory.

The growth of income in real prices portrays the accurate condition of the farmers however the choice of deflator is critical in this matter. If CPI-AL (Consumer Price Index -Agricultural Labour) is used to deflate nominal income which should ideally be the case, then the CAGR is just 3 per cent between 2012-13 and 2018-19. If we replace the CPI deflator with WPI (Wholesale Price Index for all commodities), real income growth increases to 6.1 per cent in the same period [Figure 7].

Figure 6: Average Monthly Income of Agricultural Households

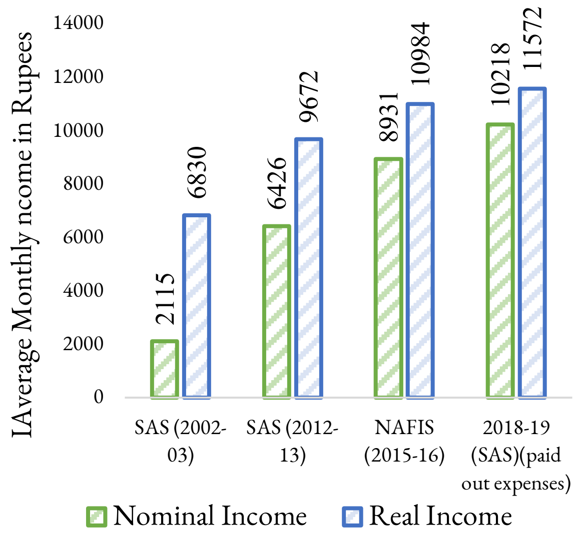
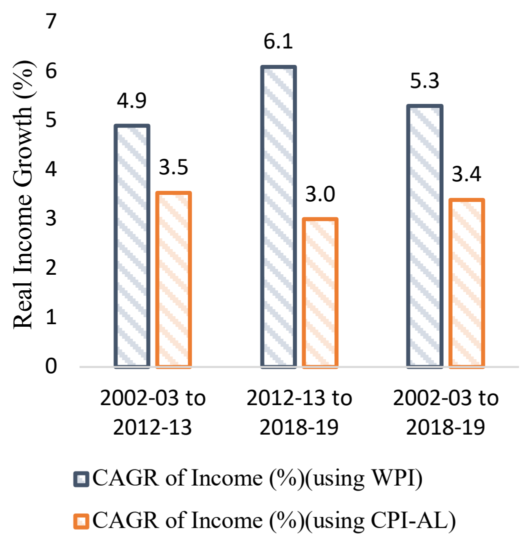


Figure 7: Real Income Growth(%)

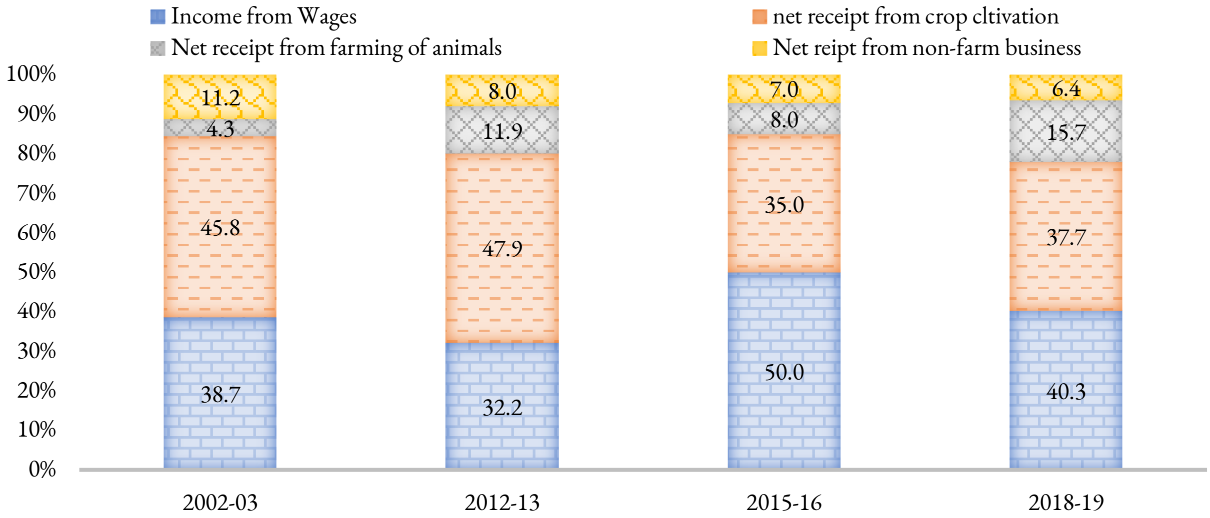


Source: SAS various Years, MOSPI
Note: Real Income in figure 1 is calculated by deflating nominal income by using CPI-AL, 2020-21=100 Real Income Growth in figure 2 is calculated using both WPI (2011-12=100) and CPI-AL (2020-21=100)

An agricultural household generates income from four major sources i) income from cultivation ii) income from farming of animals iii) wages and salaries iv) income from non-farm work. In the latest round of the surveys, data on income from "leasing out of land" was also compiled. The NABARD All India Rural Financial Inclusion Survey" (NAFIS) data classifies income into six categories: cultivation, livestock rearing, other enterprise, wage labour, govt/private services and other sources. To make it comparable with the SAS data, income from "wage labour" and "govt/private services" are clubbed together and named as "wages and Salaries".

The composition of farmers' income brings out some interesting results. The percentage of income coming from cultivation has been declining over the years. In 2002-03, out of the total income of Rs. 2115, 46 per cent of income was derived from crop cultivation, 4.3 per cent from farming of animals, 39 per cent from wages and salaries and 11.2 per cent from non-farm business [Figure 8]. Over the years, the share of wages and salaries in income increased and that of crop cultivation declined. India experienced severe drought in 2002-03 and 2015-16 with -18.6 per cent and -15.2 per cent deviation of rainfall from long period average (LPA), respectively. Crop failures in drought years forced farmers to move from cultivation to wage employment which is evident from the high share of income coming from wage employment in both the years (39 per cent and 50 per cent respectively). Another major change in the composition of income is the growing importance of the livestock sector (that includes dairy, poultry/duckery, piggery, fishery) with share of income increasing from 4.3 per cent in 2002-03 to 15.7 per cent in 2018-19. The contribution of non-farm sector has been declining steadily over the years.

Figure 8: Composition of Income



Source: SAS and NAFIS

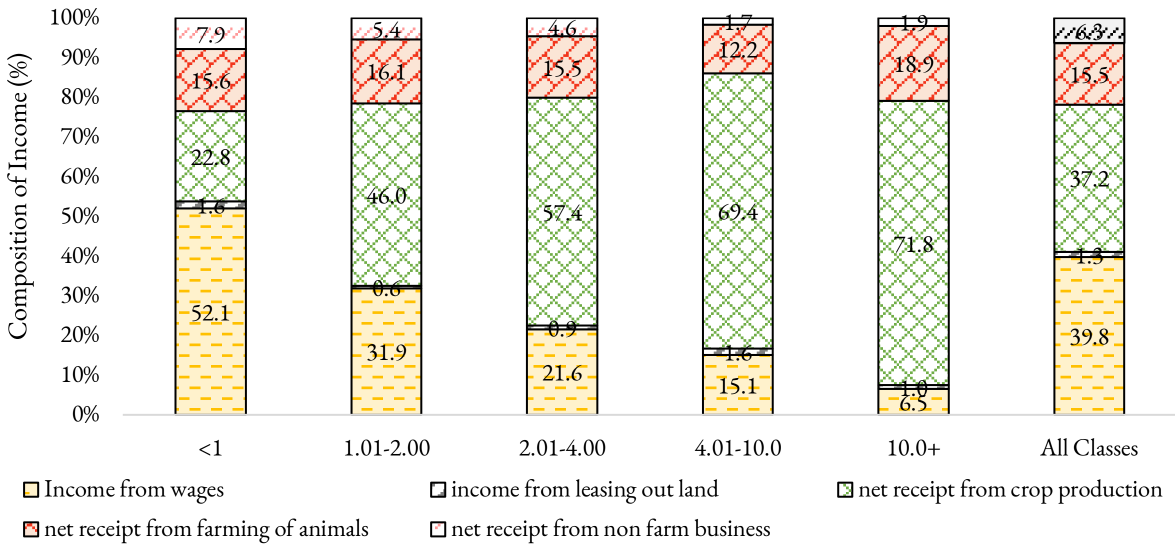
Note: For comparability across rounds "income from leasing out of land" is excluded while analysing 2018-19 data.

Composition of Income across Landholding Classes over the Survey Rounds

The average size of operational holding is shrinking in India and as per agricultural censuses it has declined from 2.28ha in 1970-71 to 1.08ha in 2015-16 (Agricultural Census) and again to 0.921ha as per SAS, 2018-19. In 2010-11, 67 per cent of marginal holdings with less than 1ha of land operated 22.5 per cent of the area. Over the years the percentage share of marginal holdings have increased and in 2018-19, 73 per cent of marginal holdings operated 32 per cent of area.

As income from small and marginal farms is not enough to maintain a healthy and respectable life, they are seen to diversify their source of income to backyard poultry, work as labourers on farms of bigger landholdings and so on. It is observed that agricultural households belonging to marginal and small landholding classes, received significant share of their incomes from "wages and salaries" and "farming of animals". With increase in landholding size, the share of income from cultivation increases [Figure 9].

Figure 9: Composition of Income by Landholding Class, 2018-19



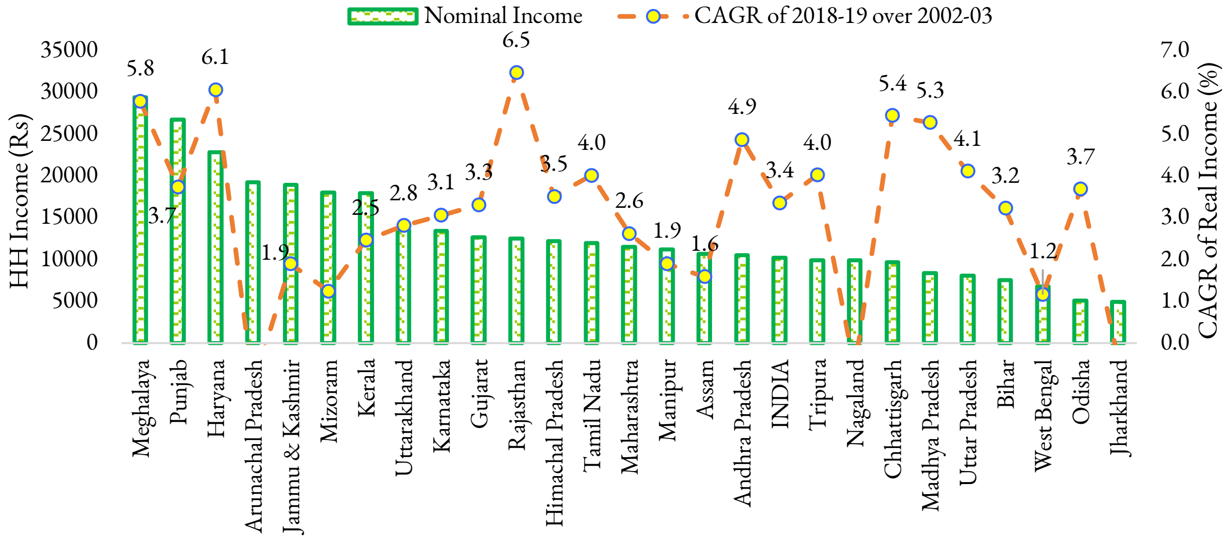
Source: SAS-2018-19, MOSPI

State-wise Analysis of Farmers' Income

Disaggregated state level analysis reveals large variations in agricultural household income across states. As per SAS 2018-19 data, highest incomes were achieved by Meghalaya (Rs.29,348) farmers followed by Punjab (Rs. 26,701), Haryana (Rs. 22,841), Arunachal Pradesh (Rs.19,225) and Jammu & Kashmir (Rs.18,918). Farmers in the eastern part of India turned out to be the poorest with Bihar (Rs. 7,542), West Bengal (Rs.6,762), Odisha (Rs.5,112) and Jharkhand (Rs.4,895) earning the lowest incomes among all the states [Figure 10]. These states not only received lowest income but also experienced low-income growth in the period of 2002-03 to 2018-19. This indicates that starting with a low base and with no satisfactory growth in income the farmers in these states are trapped in a level of destitution. Highest growth has been experienced by Rajasthan (6.5 per cent), followed by Haryana (6.1 per cent), Meghalaya (5.8 per cent) and Chhattisgarh (5,4 per cent) in the period of 2002-03 to 2018-19 [Figure 10].

This is the first time a state has surpassed Punjab's level of income. But the state level comparison on agricultural income should be on a fair scale as the holding size varies broadly across states. Once incomes are standardised s by their holding sizes given in SAS, the ranking completely changes. Punjab and Haryana go down from their current positions of second and third to eleventh and fifteenth positions respectively [Figure 11]. The states that perform better on per hectare basis are Jammu & Kashmir, Kerala, Meghalaya and Arunachal Pradesh, all of them specialising in high value agriculture like Fruits and vegetables, spices and livestock. Average landholding data is compiled by both SAS and Agriculture Census (latest 2015-16) but there is a huge disparity between the two data sources particularly for states like Punjab, Rajasthan, Haryana and Gujarat, which needs to be solved. As per SAS, average operated area per holding for Punjab is 1.44 ha, but Census gives a much higher value of 3.62 ha of average operational holding. If agri-household income is normalised using landholding data from agri-census, Punjab's position would further deteriorate to 21st position (with Rs 7376) out of 28 states.

Figure 10: Farmers' Average Nominal Income (Rs) and Real Income Growth (%)

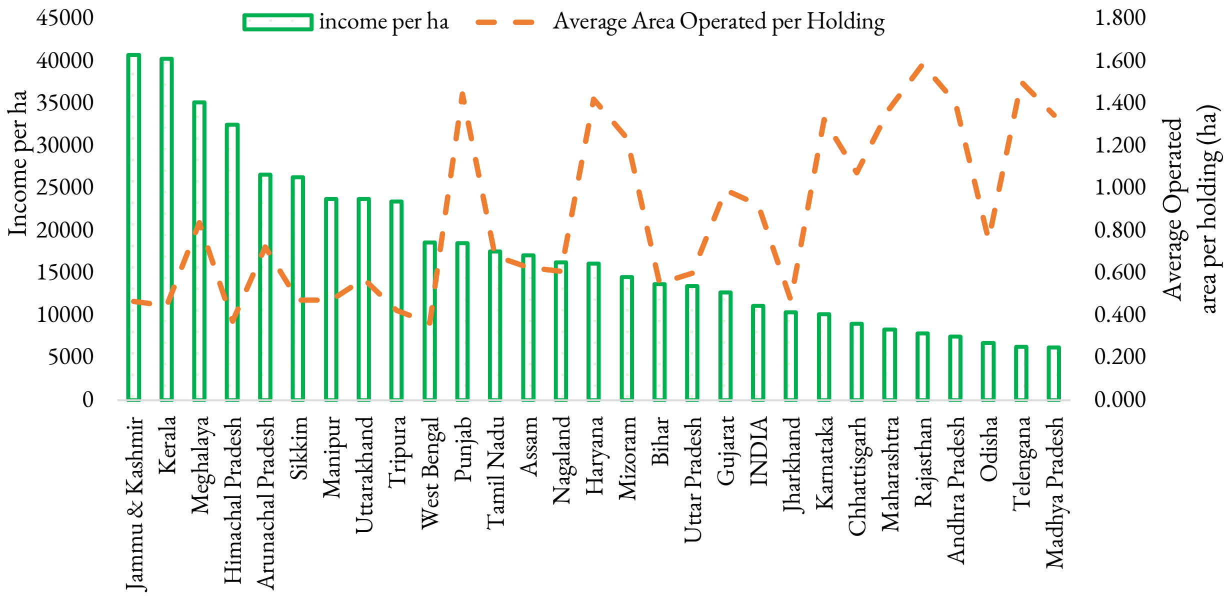


Source: SAS, 2018-19

Punjab and Haryana have historically been frontrunners in all parameters of agricultural progress since the zenith of the Green Revolution. Massive increases in production of wheat and rice helped India come out of the "ship to mouth" crisis that it fell into during the mid-sixties. High-yielding varieties of seeds, institutionalisation of the Food Corporation of India (FCI), extensive irrigation, fertiliser, and farm mechanisation in these two states played a key role in ensuring food security for the country. This policy-mix was very effective when India was going through a crisis resulting from severe food scarcity. However, this process of resource intensification has unfavourably impacted the natural resources and environment, leading to soil, water, and air degradation in the paddy belt of Punjab-Haryana resulting in a serious environmental crisis. Open-ended procurement has ensured a safety-net to the farmers of this region and is encouraging them to produce more and more rice even if it is environmentally unsustainable. India is currently the second largest producer of rice and wheat in the world and has sufficient supply of cereals for the coming years. We no longer rely on these states for food security. India should start thinking towards policies in the broader context of natural resource management. One of the necessary measures is breaking the archaic subsidy syndrome, otherwise the constraints will be magnified and become even graver as the existential threats posed by climate change become more manifest (Gulati, Kapur, & Bouton, 2019).

State wise change in the composition of income reveals a shift in income from "crop cultivation" and "non-farm business" towards income from "wages and salaries" and "farming of animals" for all the states. A significant increase in income from farming of animals has taken place for Madhya Pradesh (31.5 percentage point), Haryana (26 percentage point), Rajasthan (18.6 percentage point), Uttarakhand (14.3 percentage point) for the period of 2002-03 to 2018-19. Most of the states have a share of income from wages higher than the national level. Among them Jammu & Kashmir (65.3 per cent), Jharkhand (57.1 per cent), Kerala (57.4 per cent), Himachal Pradesh (52.9 per cent) are states where wage income is high. Temporal changes in the composition of income are presented in the appendix.

Figure 11: Income per ha of Average Operated Area per holding

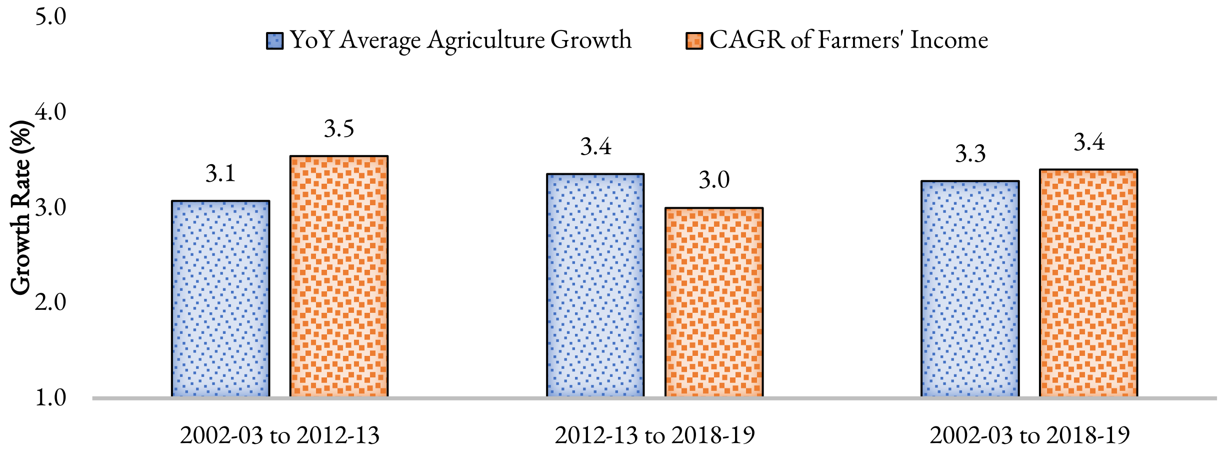


Source: SAS 2018-19, MOSPI

Agriculture GDP Growth Rate versus Farmers' Income Growth Rates

Currently, the income data is available for only four years- 2002-03, 2012-13, 2015-16 and 2018-19 and all these four years were rain-deficient years. It is likely that income estimates would be higher in normal rainfall years. And with crop failure due to inadequate rainfall, farmers are forced to move out of crop cultivation and work as wage labourers outside farming. These volatilities will be better captured if income data is available for a longer period with continuous data points. As farmers' income data is only available at four points of time, compound annual growth rate is the only option to measure income growth. In a CAGR comparison, the situation in base and terminal year influences the growth rate in great magnitude. Since temporal statistics is not available for incomes of agricultural households we need to rely on agriculture GDP values. Theoretically, agricultural GDP and farmers' household income should follow a similar trend in any economy, and this holds true for India as well [Figure 12]. But a disaggregated state level analysis shows huge gaps between agriculture GDP and farmers' income growth in many states (Kerala, Gujarat, Jharkhand, Madhya Pradesh) and these states experienced some form of natural calamities in those years. For example, Gujarat (27per cent) and Jharkhand (31per cent) experienced more than 25 per cent deficient rainfall than normal while Kerala experienced severe floods in 2018-19. If we take a closer look at the year-on-year growth rate of agricultural GDP for Gujarat, for both the years 2002-03 and 2018-19 the state attained negative growth rates (–13.5per cent and –8.7per cent)]. However, the average annual growth rate for the period of 2002-03 to 2018-19 is 6.5per cent, one of the highest in India. For state level interventions, it is important to consider both the indicators to get a fairer picture.

Figure 12: Farmers' Income and Agriculture Growth Rates (%)



Source: Central Statistical Office, MOSPI

III Policy Implications

During India's development journey over the last 75 years the country has achieved substantial progress in terms ofeconomic growth, reduction in extreme poverty among other economic indicators. But there is a long journey ahead of us. The analysis of the NSO 2018-19 data reveals that farmer incomes have grown at a much sluggish rate than expected. As suggested by Dalwai committee report, doubling of farmer income required the real incomes to grow at 10.4 per cent (between 2015-16 and 2022-23). However, between the last two SAS rounds (2012-13 to 2018-19) real income grew only at a CAGR of 3 per cent and in the remaining four years no miracle is going to take place. Major revamping is needed in the agriculture policies which are currently biased towards the crop sector. Some important policy implications follow from these results.

Firstly, the importance of the livestock sector is going to be even more prominent in the coming years. Rearing of animals, fishery, beekeeping etc will generate a substantial share of income for 89 per cent of agri-households belonging to marginal and small landholding class. It is worth mentioning that the livestock market is not protected with a safety net of minimum support price and procurement mechanism in India. Entire system is driven by demand supply interplay and sale of products takes place outside Agricultural Produce Market Committee (APMC) mandis. This trend will continue in the years to come.

Investment should be directed towards technological innovations to upgrade livestock breeding through world class reproduction management technologies. Strategies must be devised to increase milk procurement by involving more private participation in states like Uttar Pradesh, Odisha, West Bengal, Bihar, Chhattisgarh and Jharkhand where the dairy cooperative coverage is moderate or low, but profitability is higher compared to crop cultivation. Backyard Poultry generates additional income, and also improves nutrition of the poorest section. Until now there has been little support through the 'Rural Backyard Poultry Development' program for BPL families. But the level of support is very low compared to demand which needs to be upscaled. Waterlogged areas, saline water bodies should be brought under development of fisheries. Government should provide capital assistance to utilise untapped capacity in the sector. Development of horticulture must be supported by appropriate processing, grading and packaging infrastructure. Employment possibilities should be generated in these areas outside cultivation especially for the small and marginal farmers earning subsistence income from crop production. A more intensive policy to build efficient value chains for fruits and vegetables, livestock and fisheries is needed. They are more nutritious and ensure higher profitability too than in crop cultivation, especially cereals.

Another prospective source of income is from leasing out of land. Farmers from marginal and small holding categories can earn some additional income by leasing out land, while farmers with larger pieces of land can generate an economically feasible size of the holdings by leasing in. Land lease market needs to be opened and the rights of both owner and tenant should be protected by bringing the land records in order.

Cultivation of rice in Punjab and Haryana is depleting the water table fast and impacting the environment by emission of hazardous methane and other GHGs. State governments should take serious steps to incentivise farmers for switching from paddy to corn. A corpus fund of Rs 25,000 crore (with state and centre each contributing Rs12500 crore) should be created for at least five years to fulfil this goal. Maize Corporation of Punjab (MCP) could be created to buy maize from farmers at MSP and the procured maize could be channelled towards production of ethanol. MCP should enter into medium term agreements with ethanol companies. This step will automatically promote sustainability since maize needs less than one-fifth of the water than paddy needs for irrigation. Saving in power subsidy (budgeted at Rs 8275 crore in FY 2020-21) can be directed towards MCP. It can be a win-win situation for farmers, sustainable production practices, and less pollution.

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Appendix

State wise Composition of farmers Income (%) in 2002-03, 2012-13 and 2018-19

	2002-03				**2012-13**				**2018-19**			
	Income from Wages(%)	Net receipt from crop cultivation(%)	Net receipt from farming of animals (%)	Net receipt from non-farm business (%)	Income from Wages (%)	Net receipt from crop cultivation (%)	Net receipt from farming of animals (%)	Net receipt from non-farm business (%)	Income from Wages (%)	Net receipt from crop cultivation (%)	Net receipt from farming of animals (%)	Net receipt from non-farm business (%)
INDIA	38.7	45.8	4.3	11.2	32.2	47.9	11.9	8.0	40.3	37.7	15.7	6.4
Andhra Pradesh	39.4	45.5	5.7	9.5	41.5	33.8	18.0	6.7	47.1	26.6	19.9	6.4
Assam	30.8	56.7	4.5	8.1	21.4	62.9	11.9	3.8	52.5	30.7	10.5	6.4
Bihar	27.5	46.7	14.6	11.2	37.2	48.2	7.8	6.7	33.6	36.7	23.3	6.4
Chhattisgarh	43.8	50.1	-0.2	6.2	35.7	64.7	-0.4	0.0	46.2	45.0	5.4	3.3
Gujarat	22.3	35.7	38.7	3.4	33.9	37.0	24.4	4.8	35.1	34.3	27.6	2.9
Haryana	44.0	51.8	-8.2	12.4	24.2	54.5	18.3	3.0	35.4	40.9	18.1	5.6
Himachal Pradesh	47.3	28.8	7.6	16.4	45.9	32.8	11.9	9.4	52.9	21.1	15.0	11.0
Jammu & Kashmir	37.5	44.2	7.0	11.3	57.8	24.2	6.3	11.7	65.3	10.6	12.2	11.8
Jharkhand	44.7	41.2	4.2	10.0	39.0	30.7	25.3	5.0	57.1	22.6	17.0	3.2
Karnataka	40.2	48.4	5.0	6.4	30.3	55.8	6.8	7.1	34.3	51.2	12.5	2.0
Kerala	50.3	28.0	3.8	17.9	44.2	29.7	4.8	21.3	57.4	20.5	5.9	16.2
Madhya Pradesh	39.2	69.7	-15.9	7.1	21.5	64.7	11.8	2.1	30.0	52.0	15.6	2.3
Maharashtra	32.4	51.3	5.8	10.4	29.2	52.2	7.3	11.3	37.7	41.4	13.4	7.4
Odisha	54.0	31.6	1.5	12.9	34.5	28.3	26.4	10.8	52.1	30.9	8.2	8.8
Punjab	29.5	56.9	4.8	8.9	26.5	60.1	9.2	4.2	24.9	52.4	18.5	4.2
Rajasthan	62.1	24.0	0.3	13.6	34.5	42.7	13.2	9.7	43.0	30.0	18.9	8.0
Tamil Nadu	53.3	31.8	5.3	9.6	41.6	27.5	15.8	15.2	54.8	22.3	16.9	6.0
Uttar Pradesh	34.2	51.2	3.2	11.3	23.4	58.0	11.0	7.6	36.5	41.4	17.2	4.9
Uttarakhand	16.0	58.3	10.4	15.4	22.7	53.8	18.0	5.4	27.9	39.5	24.6	8.0
West Bengal	42.7	35.4	3.7	18.2	53.4	24.6	5.7	16.3	55.8	23.2	7.0	14.0

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Moving Towards A World-Class GST

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Abstract

The paper analyses the present structure and operation of GST and makes a number of proposals to simplify the tax, reduce its cascading effects, lower the compliance burden on taxpayers, and improve revenue productivity. The important recommendations include (i) expanding the tax base and reducing the cascading effects by bringing petroleum products, electricity, potable alcohol, and real estate into the tax net immediately; (ii) replacing the multiple tax rates with a single rate on goods and services ; (iii) making PAN the single GST identification number, and doing away with the State-based GST registration requirement to ease compliance burden; (iv) creating a GST Tribunal, or strengthening the present CESTAT as a National Indirect Taxes Tribunal, similar to the present ITAT, and making the AAR and the Appellate AAR truly independent bodies, not manned by departmental officers; (v) ensuring a uniform and consistent application of GST throughout the country; (vi) setting up an independent National GST Secretariat, headed by a Secretary-General represented by the Centre and the State Government officials, and a Tax Policy Advisory Committee co-opting external economists / tax experts to assist the national GST Secretariat in formulating Tax Policies; and (vii) working out a new formula for compensating the States for any loss of revenue for undertaking GST simplification based on the overall growth of the economy for a fixed period of time.

Keywords: Goods & Services Tax, Compliance Costs, Tax simplification

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I Introduction

The Goods and Services Tax ('GST') completed a tumultuous 4-year journey recently in India. The monthly GST collections hover around the INR 1 trillion mark. It remains to be seen how long the negative effect of the pandemic on the economy and the GST revenue collections would extend. It is hoped that the increases in collections are only on account of growth in economy and increase in compliance, and not on account of artificial restrictions of input tax credit through the blocking of credit by the authorities.

It has been noted time and again that the GST implemented by India, though simple as compared to the erstwhile indirect tax regime, is an unnecessarily complex one. While the initial idea was to implement one national GST, given the federal structure of our country and the demands raised by various states, a grand bargain was arrived at where a dual GST was adopted. The Centre and the State Governments now have equal tax jurisdiction across the goods and services, and have equal right to levy GST on supply of taxable goods and / or services on intra-State transactions i.e., on consumption of the goods and services in the destination state rather than the producing state. Unlike in the previous indirect tax regime -- where the taxable event for levying excise duty and for levying state VAT was different, and hence the tax bases were different (except at the first point of sale in certain cases) -- in the GST regime it is levied on a common base both by the Centre and the States.

Further, with regards to the inter-State transactions and transactions involving imports, an integrated GST (IGST) is levied by the Central Government, and such IGST proceeds are to be equally shared between the Centre and the States. While this looks very simple as a concept, it is being implemented in the same old structure, wherein a taxpayer having a pan-India presence still needs to obtain as many State / Union Territory (SGST / UTGST) registrations as may be relevant, and track all of them over and above the one Central GST (CGST) and IGST registration.

Furthermore, there is loss of input tax credit on account of complex place of supply provisions where businesses do not get to claim input tax credit of GST paid on expenses in the States where they do not have a GST registration (Example: hotel accommodation). This was the case in the erstwhile VAT regime as well, where the same taxpayer was required to follow each State's VAT laws. However, an important silver lining is that the SGST laws and procedures are uniform across the country, unlike the erstwhile State VAT laws. Indeed, this has made life easier for taxpayers, and has reduced the anxieties and uncertainties surrounding the tax compliance procedures. However, payment of GST, filing of returns etc. remains to be undertaken State-wise rather than at one go -- a shadow of complexity overhanging from the erstwhile VAT era.

Realising the necessity to further simplify the GST, the GST Council has very recently set up 2 Groups of Ministers ('GoMs'), one for GST rate rationalisation, and the other for GST System reforms. The success of a tax system depends both upon the simplicity of structure as well as the ease of implementation. These should be the two guiding lights for the revision in the GST structure: to make it more business friendly, while at the same time ensuring that revenues of the Government are not affected. Greater tax collections should be a consequence of greater economic activity and not a result of higher rate of taxes (or higher rate of taxes on select goods). Therefore, the GST structure should ensure that the ease of doing business is maintained and facilitate greater economic activity.

This paper suggests a number of proposals that can make India's GST a simple one, paving the way for reducing the compliance burden on the taxpayers and enhancing the tax buoyancy of the overall revenues by simplifying the GST structure and procedures. By adopting the suggested best international practices, India can play a pivotal role in becoming a dominant player in the global value chain and accelerate economic growth, as the refined GST will attract new investments and make the Indian economy a counter magnet to China. There is a tremendous potential for increasing India's share in the global value chain with enhanced investment flows. These investments will generate greater employment opportunities in India and enhance the GDP growth and will also provide resiliency to the global economic system.

This paper proposes reforms related to the following seven key areas:

1. Widening of the GST net
2. Re-looking at the GST rate structure
3. Easing GST compliance
4. Bringing uniformity in interpretation of GST law and procedures
5. Revamping the GST dispute resolution mechanism
6. Setting up of an independent National GST Secretariat
7. Extending the levy of compensation cess until 2025.

With these reforms our GST system will achieve its true potential and truly become a world-class one.

II Seven key reforms

1. Towards making GST comprehensive

While introducing GST in 2017, the GST Council took many decisions to arrive at a consensus; one such set of decisions was to keep certain products / services out of the GST net. Thus, petroleum products *(crude oil, natural gas, petrol, diesel, and aviation turbine fuel)*, electricity, alcohol for human consumption, and real estate have been kept outside the ambit of the GST net. There have been numerous representations and arguments all these years to bring these sectors under the GST net. Keeping the end products out of the GST net and levying GST on the inputs, input services, and capital goods in manufacture of these products results in a huge cascading effect, leading to increased costs and loss for the manufacturers, and hence increased price for the end-consumers. Petrol, diesel, and electricity are glaring examples of such high input costs being recovered from consumers. Further, these are making our exports non-competitive, as -- unlike with domestic consumers -- these costs cannot be passed onto international buyers.

Petroleum products have hitherto been one of the largest sources of revenue for both, the Centre and the States. In the long-drawn deliberations for introducing GST, the Centre and the States agreed to keep the petroleum products out from the GST ambit for initial "few" years – a decision driven solely by the revenue implications. While one would have expected that the five petroleum products (crude oil, natural gas, petrol, diesel, and aviation turbine fuel) kept outside the purview of the GST would be brought under the GST ambit once the GST revenue stabilizes, it is important to note that the GST revenues have been unstable since the introduction of the tax, and the Covid-19 pandemic has made them even more unpredictable.

As the State Governments have been constitutionally assured of making good their possible loss on account of introduction of GST in the first five years from the date of implementation, they should not hesitate in agreeing to tax-structure-related decisions in this period. The GST paid on inputs, input services, and capital goods is not available to be set-off against the output excise / VAT levied on petroleum products. Further, the excise duty/VAT paid on petroleum products is not available as set-off against the final products/services, which attract GST, when petroleum products are in turn used as inputs for the manufacture of final products/provision of services under the GST regime. This results in significant cascading of taxes and increase in costs. These petroleum products form a very large percentage of the consumption basket, both for businesses as well as households. Lack of dependable public transport and infrastructure in many parts of the country has further increased the consumption of these products.

In the last couple of years, though the international prices of crude oil have stabilized at a relatively low level, the Centre and almost all the States have resorted to hiking their respective levies and have mopped up significant revenue. From a high price of around $110 per barrel in 2012, the price of crude has been on a downslide, and is currently fluctuating between $70-$80 per barrel. It is interesting to note that in the last five years, while the international price of crude has been more or less stable (barring an exception in 2020), tax revenues for the Central and State Governments has been steadily rising. The Central Government's revenue from taxation of petroleum products has increased over the last few years. In FY 2016-17, it was around INR 2,732 billion, which increased to INR 3,343 billion in FY 19-20, and shot up to INR 4,538 billion (Provisional Estimate) in FY 20-21. Similarly, the State Governments' revenues increased from INR 1,896 billion to INR 2,211 billion during FY 19-20, and reduced to INR 2,177 billion (Provisional Estimate) during FY 20-21 (Petroleum Planning and Analysis Cell 2021).

The Centre should continue to play the important role of ensuring that co-operative federalism is functioning at its best. Petroleum products should be brought under the GST net. To protect the revenue concerns of the Centre and the States, a non-VATable cess can be levied over and above the GST, which can be divided amongst the Centre and the States. These levies will also play the role of "carbon tax" and promote de-carbonisation, thus helping our country achieve the Paris Agreement commitments. A suitable non-VATable cess also needs to be levied on coal to promote de-carbonisation (2018). The biggest beneficiaries of this change would be the businesses who use these petroleum products as inputs for their business activities (e.g., Aviation Turbine Fuel used by the airlines, petroleum products used by petrochemicals and pharmaceutical sectors etc). They should be allowed to claim input tax credits of the GST paid, thereby reducing the cost of operations. Bringing ATF within the levy of GST will also benefit the airline industry, which has been greatly affected by the Covid-19 pandemic, thus helping stabilize the functioning of this industry.

Furthermore, revenue loss if any incurred by the States from the inclusion of the petroleum products in the GST net can be met by the Centre with the proposed continuation of the compensation cess. Once this is done, electricity, real estate, and finally alcohol for human consumption should also be brought under the purview of GST. This would require amendment to the Constitution as currently the power to levy tax on alcohol is exclusive with the States. However, this would eliminate the inefficiencies and cost escalation once for all. The inclusion of electricity in the GST ambit would also be extremely beneficial to industry at large. The Task Force on Goods and Services Tax of the Thirteenth Finance Commission observed that the impact of the embedded taxes in power generation and distribution could account for as much as 30% of the cost of power production and distribution (Thirteenth Finance Commission 2009). If electricity is brought under GST, it will substantially enhance cost efficiency across the board, as electricity is an input to almost all the trade and industry. This can have a positive impact, particularly on the labour-intensive textiles sector and other such sectors, boosting exports especially in those sectors where China is reducing its presence.

The GST revenues for the States have come under pressure during the pandemic, and it is imperative that the States have a few additional sources of revenue other than GST revenues in order to sustain their developmental agenda, as also to provide resources for extended support during natural calamities. Bringing real estate fully into the GST fold will also uplift the tax revenues significantly. The real estate sector is notorious for large, unaccounted money transactions. While the Real Estate Regulatory Authority ('RERA') regulations have been introduced a couple of years ago with an objective to provide transparency in the real estate sector, an end-to-end tracking of the money involved, right from the land owner to the sand supplier to the interior decorator is necessary to plug rampant tax leakage. The state-level stamp duty and related registration levies need to be subsumed in the GST. These measures will boost the housing sector, thereby providing employment to large numbers of skilled and unskilled workers. These reforms will also enable urban local bodies to mobilize higher amounts of property taxes.

While GST is levied on construction services and on various inputs like cement, steel etc, which are used in the construction industry, transactions in immovable property (post the construction stage) are not subject to a levy of GST. Therefore, the construction industry will also greatly be benefitted if the tax structure is streamlined, and all transactions connected to the real estate industry are fully brought under GST. Since the construction industry greatly contributes to the development of public infrastructure, streamlining the tax structure of such industry will greatly boost infrastructure and development.

The other assured way of widening the GST tax base of the States and that of the Centre is to completely do away with the GST exemptions. Exemptions force tremendous cascading of input taxes in the economy, as they become costs and thus adversely affect Indian manufacturing competitiveness in domestic as well as international markets. They also promote large-scale cash transactions, as nothing related to the exempted commodity gets tracked through the value chain. More than 400 GST exemptions (goods and services put together) exist currently, and this list needs to be pruned drastically in order to make the overall GST structure simpler and efficient. Ironically, the current GST exemption policy hurts micro and small enterprises much more, as they do not receive input credits. This could be one of the main reasons adversely affecting the recovery of the Small & Medium enterprises ('SMEs').

2. Simplifying the GST rate structure

The GST rate structure designed 4 years ago was largely with the objective to keep the effective rate of taxes in the same range. The then prevalent cumulative tax rate (Excise duty + VAT) largely influenced the finalisation of the GST rate structure. As a result, we have a GST rate structure which has 5 different rates besides the compensation cess on certain goods. This plethora of rates has made the Indian GST a complex one.

Analytically, for arriving at the appropriate GST rate, budget neutral rate (BNR) would have been a better criterion than the one that was adopted i.e., revenue neutral rate (RNR). As far as the government budget is concerned, GST affects both the revenues as well as the expenditure. Yet another relevant issue is the choice of the time horizon. Major structural reforms like GST are like capital expenditures that have upfront costs and yield results over a longer period. Hence, in arriving at an appropriate GST rate, the requirement of achieving budget neutrality in the first year itself is not useful. The burden on the budget due to GST reforms in the initial years should be treated as an investment made by the Government to introduce major structural reforms with long-term gains.

In most of the developed and emerging market economies, there is a single GST or VAT rate on all goods and services. The countries having a single rate and simple GST or VAT laws have been successful in optimizing the tax revenue and minimizing tax disputes. Out of all the countries who have implemented a GST or VAT in the last 2 decades, around 80 percent of those countries have chosen to have a single rate. A single GST rate for India has been an unmet goal, all through the discussions conducted before implementation. In fact, very early on in the GST debate, a single rate of 12% was recommended by the 13th Finance Commission. The ages-old tax policy of having a differential tax rate for "must have" and "nice to have" goods and services should be done away with. The revolutionary reform of introduction of a single GST rate with additional non-VATable taxes on few demerit goods is now required. This will simplify the GST design to a very large extent, putting to rest almost all the classification issues. A lower rate of GST would also mean less incentive to evade taxes. The genesis of the current GST frauds lies in the very structure of the GST rates, as high rates of GST make it lucrative to evade taxes. We have examples of successful standard single rate GST / VAT regimes, including Singapore, New Zealand, UAE, and Japan, to name a few. A single GST rate of 12% (6% for the Centre and 6% for the States / Union Territories) should be introduced at the earliest.

There is an increase in the consumption of digital goods and services, which will only increase in the future. A moderate tax rate of 12% will facilitate the growth and development of the digital economy, while at the same time ensuring adequate GST revenue collections. Though GST is not a progressive tax and having a single rate may result in higher effective taxes in relation to some items/services of essential/everyday consumption, the interests of the weaker sections of society can be protected by provision of direct subsidies, and should not be by way of having multiple GST rates.

The threshold rates for registration should also be increased, so that small businesses are outside the GST net and not subject to an unnecessary compliance burden. For small business, the cost of compliance is a significant part of their business costs, and increasing the GST threshold will alleviate this pain.

A reformed GST system can play yet another important role in our public finance. Currently, the vertical imbalance in the revenues accruing to the Centre and the States is even sharper in the case of the third tier, consisting of elected local bodies and panchayats. This imbalance is having a deleterious effect on India's urbanization and the quality of local public goods, and thus further aggravating negative externalities for the environment and climate change (Kelkar 2019).

Post the introduction of GST, the Local Bodies that earlier had an independent tax revenue source in the form of octroi duty / entry tax on consumption of goods, today have to fully depend on the States for getting their share in the pie. Property tax is the main tax revenue for the local bodies now. The lack of funds with local bodies has been one of the key reasons for slow development in the projects undertaken by them. A steady source of income, *ab initio* from the consumption of goods and services, needs to be carved out for them without introducing any additional tax. This can be achieved by strengthening the State Finance Commissions in terms of their mandate, with their recommendations receiving acceptance similar to the Central Finance Commission.

This can be achieved by amending Article 266 of the Constitution to include a consolidated fund for Municipalities and Panchayats, and Articles 243H and 243X to ensure that revenue allocated by the Central and State Finance Commissions to Municipalities and Panchayats do not form part of the consolidated fund of the State but rather flow directly to the consolidated fund thus created. Once the Constitution is amended, the GST rate distribution can be 5% to the Centre, 5% to the States / Union Territories, and 2% to the Local Bodies. After a period of, say, 3 years of introducing the suggested GST reforms, the GST rate can be increased to 14% (6% to the Centre, 6% to the States / Union Territories, and 2% to the Local Bodies) to address the long term resource needs of the Centre, States, and Local Governments as well. This can be supplemented by increasing the exemption threshold limit for levy of direct taxes, which will protect the vulnerable sections of the society.

3. Easing GST Compliance

The current GST compliance requirement is to a large extent digitized and the introduction of e-invoicing in a phased manner is a step in the right direction. However, the Input Tax Credit (ITC) mechanism needs to be simplified to a large extent. The key highlight of any value-added tax system is ability of the tax payers to claim ITC of almost all the goods and services procured for supplying taxable goods and / or services. The tax paid on the input side ought to be available as a set-off against the liability on the output side. Such is the simple theory, which works wonders in other tax jurisdictions. A simple provision allowing input tax credits of almost everything (with a small negative list) that the businesses procure, and the expense of which is debited to P&L account, needs to be introduced to replace the existing complex ITC mechanism.

The e-invoicing mechanism is now mandatory for taxpayers who have more than INR 50 crore turnover. The plan is to make it compulsory for every taxpayer eventually. Most of the high-value transactions are now covered by the e-invoicing mechanism. It is therefore suggested that the generation of e-way bill for those who are covered by the e-invoicing mechanism be done away with. This will ease the burden of compliance for the taxpayers resulting in quicker turnaround of transport vehicles. All artificial restrictions of input tax credit, such as through blocking of credit and provisional attachments in the garb of protecting revenue, must be removed.

The India GST has been hailed as "one nation, one tax" since its inception. Indeed, the current GST is "one nation, one tax" in concept, in that there are no other taxes levied on supply of goods and services which are under the purview of GST, and State GST rates are now uniform across all the States and Union Territories. However, businesses operating in more than one State / Union Territory still have to obtain GSTIN for each of the States / UTs and file State / UT-wise GST returns on the

GSTN portal, using as many usernames and passwords as the number of States / UTs in which they operate. This has not helped in reducing GST compliance costs, and in fact in some cases the costs have gone up substantially, given the sheer number of state-wise reconciliations that are required to be performed, both month-on-month and annually.

This is an opportune time to design a single GST login and password, doing away with the need for businesses to use state-wise login and password for GST compliances on the GST portal. A taxpayer having pan-India operations should be able to access the GSTN portal with a single click for all the states. This one change itself will provide huge relief for making GST compliance more user friendly.

Currently, GST audits can be undertaken by both, the Central GST authorities as well as the State GST authorities. There has to be a mechanism in place to ensure that there are no 'Dual audits' undertaken for the same taxpayer, which may lead to unnecessary burden on the taxpayers. Either the current bifurcation of the taxpayers done between the Central GST Authority and the State GST Authorities should be followed for conducting GST audits as well, or a turnover threshold-based system may be designed to divide the GST audit activity between the Central GST Authority and the State GST Authorities (e.g. taxpayers having turnover above, say, INR 5 crore can be audited by the Central GST Authority, and those below INR 5 crore by the State GST Authorities).

Further, the audit program should be consistent across the country, and a National GST Audit Manual should be designed, which can be followed by audit officers from the Centre as well as from the States. The GST Council has already formed a Committee of Officers ('CoO') to have a joint & collaborative approach for GST Audit as well as capacity-building for audit. The CoO will ensure that their uniform practices are followed for GST Audit by the Centre and State tax administrations. The Terms of Reference ('ToR') for this CoO should be extended to include GST enforcement / intelligence initiatives as well.

4. Bringing uniformity in interpretation of GST law and procedures

Since the introduction of GST, there have been numerous advance rulings pronounced in each of the States, and at times there are conflicting views taken by various State GST Authorities on interpretation of the GST law. There was an announcement of setting up of a National Appellate Authority for Advance Rulings, which will introduce procedures for filing of appeals and rectification of orders. There is an urgent need for such a National Authority for Advance Ruling as the primary/first forum which will ensure uniform interpretation of the GST law. It is too much of a task for a taxpayer to first obtain the Advance Ruling from various States on the same issue, and then approach the National Appellate Authority for getting relief in the event of any adverse order.

5. Revamp the GST Dispute resolution mechanism

It is indeed unfortunate that despite the lapse of more than 4 years, there is no GST Tribunal functioning in the country. The existing provisions of the GST Tribunal were struck down by the Madras High Court, as the provisions were contrary to the binding decisions of the Supreme Court. These provisions have been drafted contrary to the mandate laid down by the Supreme Court on the minimum requirement for Tribunals. Needless to say, the Madras High Court had no choice but to strike it down. Till date, no appeal has been filed before the Supreme Court. It is recommended that the GST Tribunal is constituted in accordance with the guidelines laid down by the Supreme Court. It is suggested that the CESTAT / ITAT pattern can be followed, with one Judicial Member and one Technical Member of each bench of the Tribunal. In the beginning, we can have four Tribunals in the four zones of Delhi, Bombay, Calcutta, and Chennai. The Benches of the Tribunal can be located in the same places where the current CESTAT is being located. It is further suggested that with the phasing out of Excise and Service Tax, the CESTAT can be renamed as National Indirect Taxes Tribunal (NITT). Therefore, it will deal with the GST, Customs, and other indirect taxes. The President of the Tribunal can be in Delhi, as is presently the case. Vacancies should be avoided, and the Members of the Tribunal must be appointed quickly in accordance with the guidelines laid down by the Supreme Court.

In the absence of the GST Tribunal, the High Courts have been overloaded with cases on indirect taxes, which should preferably be dealt with by a fully-functional Tribunal, with the High Courts confining themselves only to deciding 'substantial questions of law'.

The current Authority for Advance Rulings (AAR) system is not satisfactory, as approximately 80% or more of the rulings are in favour of the Department. This is because the persons giving advance rulings are Departmental officers, who are naturally afraid to take any independent views, in view of vigilance cases and other constraints. Further, for a serving officer, it is impossible to shed their bias in favour of Revenue Department. Thus, the AAR commands very little respect; everybody files an application with the AAR knowing that the claim will be dismissed. Similarly, the Appellate Authority for Advance Ruling is composed only of Revenue officials, and similarly does not command the confidence of the litigants. Under the Income Tax Act, the Authority for Advance Ruling was an outstanding body whose chairperson was a retired Supreme Court judge. The recent amendment has made the Authority a fully bureaucratic body. Therefore, applications will now be filed before the AAR fully knowing that no relief will be forthcoming, and one can straightaway go to the High Court.

If GST is to work efficiently, the dispute resolution mechanism through the AAR and Appellate AAR must be a truly independent and robust mechanism. The greatest beneficiary of such a system will be the Union of India itself. The absence of an independent dispute resolution mechanism leads to serious malpractices at the lower level. Greater clarity in laws and lesser disputes will be more beneficial for businesses as well as the Central Government/State Government. In the recent past, the GST Council has been classifying goods under one head or the other. Sometimes, the classification of the GST Council is contrary to existing Supreme Court/High Court decisions. Once the GST Council decides the classification, the assessee is helpless, and has to challenge it in writ petition. Any disputed classification should be subjected to a show-cause notice and adjudication by the appropriate authority, rather than forcing the taxpayer to resort to the High Courts again.

At present, the statutory provisions do not contain any time limit for investigation. Once a search or survey is done, there should be a 60- or 90-day limit to complete the investigation and take a decision whether or not to issue a show-cause notice. With computerisation, a 60-day period is more than sufficient to issue a show-cause notice. In exceptional cases involving tax evasion at multiple locations, a longer period of 90 days may be given. One of the most dangerous trends is the present practice of keeping the investigations pending and asking the assessee to deposit the disputed duty in advance, even without a show-cause notice. In several cases, assessees have been threatened with arrests and harassment. Thereafter, show-cause notice is not issued for several months and even years. This once again breaks the confidence of the industry in the system which is being rampantly abused in this manner. Even assessees who are not involved in tax evasion have been subjected to such arm-twisting practices, whereby the assessee is asked to pay the duty without any show-cause notice or opportunity for hearing. There are multiple Supreme Court judgments stating that this is completely illegal. In order to restrain this practice, all investigation offices should be equipped with CCTV cameras and recording equipment, in accordance with the directions given by the Supreme Court[1].

To ensure effective implementation of the GST regime, there is a requirement for change in approach/outlook of the tax authorities, wherein assesses should be treated as consumers who pay significant taxes and contribute to the welfare of the nation. The relationship between the Government and the taxpayer should not be adversarial in nature. There are innumerable litigations pending across various High Court and even the Supreme Court on procedural issues, such as the non-transition of credit into the GST regime due to glitches in the GSTN. The Government should ensure that all procedural issues are clarified at the earliest, and that the assessee is not affected by technical/procedural glitches not attributable the assessee themselves. The Government should play a more proactive role in resolving issues and preventing litigation, when the procedural irregularities are minor in nature or are for reasons not attributable to the taxpayer. While the Government should deal with cases of tax evasion with an iron hand, a more taxpayer-friendly approach -- if adopted by the Government -- will foster greater compliance, resulting in greater tax collections.

6. Setting up of an Independent National GST Secretariat

The setting up of an independent National GST Secretariat, which is staffed by officials from the Central Government as well as from the State Governments, will go a long way to ensure that there is uniformity in the interpretation of the GST law across the country, and that no conflicting views are taken by the State GST Authorities. The National GST Secretariat should be headed by a Secretary-General at the same level as a Secretary to the Government of India. The Secretary-General should be appointed on a full-time basis. They can be from the All-India Services, or a distinguished professional from academia or industry. The tenure of the Secretary-General can be for a fixed period of, say, 3 to 5 years.

The National GST Secretariat should function as an independent arm of the GST Council, headed by the Secretary-General and aided by subject-matter experts. It can be further supported by specific consumption-related inputs from state economic intelligent units. This will enhance the analytical basis for decision-making regarding GST policy matters. The Centre and the States can share the expenses of the National GST Secretariat in the same proportion as the voting share in the GST Council meetings.

7. Extension to Levy of Compensation Cess

After 4 years of the implementation of the GST, it now appears that agreeing to compensate the States for any GST revenue shortfall, that too at a 14% compounded growth rate for five years, was a tall order. With no linkage to the GDP growth rate during the same period, and keeping petroleum products, electricity, alcohol (fully) and real estate (partially) out of the GST ambit, it was but expected that there would be a shortfall in the GST revenues. Adding to the woes was the blow from the Covid-19 pandemic, which took away the slight hope of revival, and now we are staring at an extension of the period for the levy of compensation cess.

The economy was showing high growth during the years 2015 and 2016, hence there was tinge of optimism in proposing a blanket 14% rate across the board for all the States. There were many States then for whom the tax revenues from those taxes subsumed into the GST were growing in single digits at best. A 14% guaranteed increase in revenues, that too at a compounding rate for five years, was like a windfall for these States. The Central Government perhaps should have adopted a differential approach depending upon the pre-GST tax revenues of the States and devised a band of compensation slabs.

The current levy of the compensation cess will come to an end in June 2022 (completion of 5 years from the GST implementation date). Beyond June 2022, the levy of the compensation cess should be restricted only to make good the additional loss suffered during the Covid-19 pandemic, and the revenue losses incurred for undertaking the proposed GST simplification / rationalization. The extension of the compensation cess can be restricted to a period of three years, i.e. until 2025, post which the GST rate can be increased from 12% to 14% to address the revenue needs of the Centre, States / Union Territories, and the Local Bodies. The formula for the quantum of the compensation cess should be linked to the overall annual growth rate in the economy.

Fiscal relations between the Centre and the States have been strained in the last couple of years owing to many factors. Agreeing to the revised formula for extension of the levy of compensation cess is a good opportunity for both the Centre and the States to showcase to the world the true spirit of co-operative federalism. Moreover, the States are required to be incentivized for making good the revenue losses on account of the Covid-19 pandemic, and to continue to be committed to tax reforms leading to improvement in the tax administration mechanism.

III Summing up: Policy Initiatives for Consideration

Based on the above discussion, the following policy initiatives are suggested to make the GST structure simple which will enable realization of its true potential:

Bring petroleum products, electricity, potable alcohol, real estate fully under the GST net: Petroleum products, electricity, potable alcohol, and real estate should be brought under the GST net immediately, without any further delay. Wider the net, lesser the cascading of taxes which are otherwise levied on these products.

Simplify the GST rate structure: Scrap the current multiple GST rate structure and bring in a simple, easy to understand single GST rate structure for almost all goods and services with exception for de-merit goods and services.

Ease GST compliance: Make PAN as the single GST identification number, and do away with the State-based GST registration requirement.

Revamp GST Dispute resolution mechanism: Create a GST Tribunal, or continue and strengthen the present CESTAT as a National Indirect Taxes Tribunal, on the lines of the present CESTAT or ITAT. The AAR and the Appellate AAR should be truly independent bodies and not manned by

Departmental officers. If an officer is a member of the AAR, they should not carry out executive functions, and should preferably be sent on deputation to an independent ministry such as the Ministry of Law. Every inspection, search, or seizure must result in either a closure report or in issuance of a show-cause notice in 60/90 days. Further, no demand should be made or duty collected without a show-cause notice.

Set up an independent National GST Secretariat: In order to have a uniform and consistent application of GST throughout the country, set up an independent National GST secretariat headed by a Secretary General represented by the Centre and the State Government officials. A Tax Policy Advisory Committee co-opting external economists / tax experts can also be formed to assist the national GST Secretariat in formulating Tax Policies.

Extend levy of compensation cess: Work out a new formula based on overall growth in the economy for compensating the States for recouping the additional tax losses on account of the Covid-19 pandemic and for making good the revenue losses incurred for undertaking proposed GST simplification / rationalization measures for a fixed period of time.

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Securing the Future
Strategizing Child Development in Karnataka in the Aftermath of COVID-19

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Abstract

COVID-19 has disrupted routine functioning of the economy and the delivery of welfare programs everywhere. Using the case of Karnataka, this paper document the size of the economic impact on both the state and its households, and the status of various child-specific schemes managed by the Government of Karnataka over 2020-21. With shrinking household consumption and rising deficits of the state, there is need for operational focus on child development to ensure a healthy future for children in India. Using district level data from NFHS 5, this paper proposes a simple and easy-to-implement prioritization framework, which can be used to identify geographic focus for child development schemes in Karnataka, in order to address deficits that matter for the Global Hunger Index in a time of tightening budget constraints for both the state and households.

Keywords: COVID-19, Child Development, Health and Nutrition

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Introduction

India's position on the Global Hunger Index (GHI) is 101st out of a total of 116 countries that were ranked in 2021.[ii] Coming after the COVID-19-affected financial year 2020-21, this is alarming. The fact that the pandemic compromised livelihoods, increased inequalities, and pushed households into poverty is expected; however, it is worrying to note that India has been slipping when compared to other countries. The reason this is alarming is because the constituents of GHI focus significantly on children *viz.* undernourishment, child stunting and wasting, and under-five mortality.

India's policy response to COVID-19 has been to protect lives by declaring a strict national lockdown starting from 23rd March 2020 which lasted well into the first quarter (Q1) of 2020-21. Initially, the policy response was framed within the Epidemic Diseases Act, 1857; with increasing spread of COVID-19, and related complexity of issues to respond to, the policy framework was centralized under the Disaster Management Act, 2005. The lockdown associated with the first wave of COVID-19 in India led to complete stoppage of economic activities, and to large scale migration from urban centres, inflicting enormous misery, particularly on the informal sector workers, the poor. The adverse impact was particularly severe on the children of the vulnerable sections of population, as Anganwadis could not continue with activities such as such as nutrition, routine health services, and early child-care.iii

Early reports document that services like immunization were truncated, with at least one lakh children missing their BCG vaccine in March alone (with a lockdown beginning on 23rd March) and a 69% drop in measles vaccines between March 2019 and March 2020.[iv] The intensity of a national lockdown gave way to local lockdowns, night curfews, and other state and district-level policies in the second wave; however, many child-centric services remain discontinued even as this wave has begun waning. This paper analyses the importance of different schemes that are critical to child development in Karnataka and examines how public policy and budgetary allocation may be strategized to ensure a stable and growing environment for children.

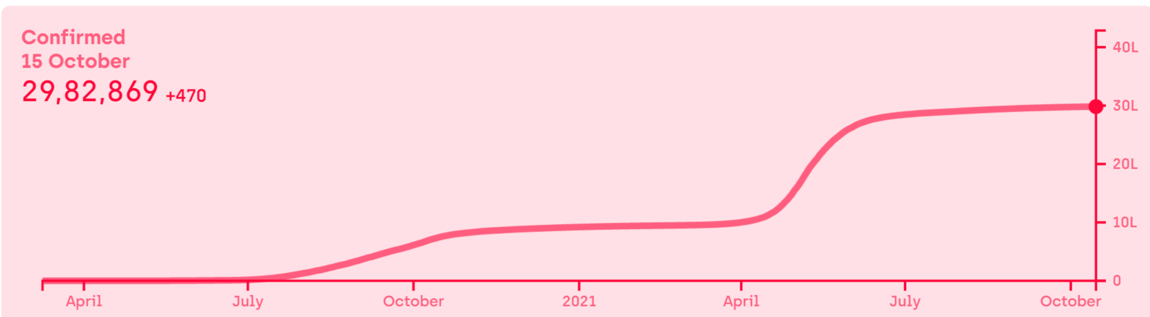
In Karnataka, services like Supplementary Nutrition and Immunization have been a major part of Health and Nutrition Programme covering both Women and Child Development. Broadly, Karnataka has four administrative divisions, the Belgaum Division (north-east Karnataka), the Gulbarga Division (north-west Karnataka), the Mysore Division (south-east Division) and the Bangalore Division (south-west Karnataka). The districts in the two northern divisions have very low human development indicators. These districts have higher proportion of SC/ST population, high incidence of child marriage and child labour, as also low child health and nutrition statuses. The recently released District Fact Sheets from the 5th round (2019-20) of the National Family Health Survey (NFHS-5) provides an appropriate baseline for analysing the impact of COVID-19. Within Karnataka, there is evidence of improvements in children's health status in the last 5 years; vaccination is up from 62.5% to 84.1%; and a modest reduction in children malnutrition is reported, with stunting reducing from 36.2% to 35.4%, wasting reducing from 26.1% to 19.5%, and the share of underweight children down from 35.2% to 32.9%. With many child services disrupted over the last 18-20 months, many of these gains are likely to be reversed.

In this paper, I review the impact of COVID-19 on the economy of Karnataka and explore ways to prioritize regions where programmatic focus of child development schemes can significantly improve nutritional and health outcomes for children. In section 2, I examine the adverse impact of COVID-19 on household income and consumption in Karnataka. In Section 3, I analyse the changes in the health and nutrition status of children between 2015-16 and 2020-21, using the NFHS5 to identify a set of public expenditure allocations that relate to 11 of the 19 SDG indicators that are under the purview of the UNICEF (GoI 2019). In Section 4, I further analyse the trends in health and nutrition and to establish dimensions in which Karnataka has done poorly in the last five years. The district-wise analysis helps us to identify priority domains and priority hotspots that need to be kept in mind as the government's fiscal constraints harden. Section 5 concludes by presenting the trade-off faced by the Government of Karnataka: to secure allocations for improving child health when faced with shrinking fiscal footprint due to the pandemic.

Karnataka's Economy around the pandemic

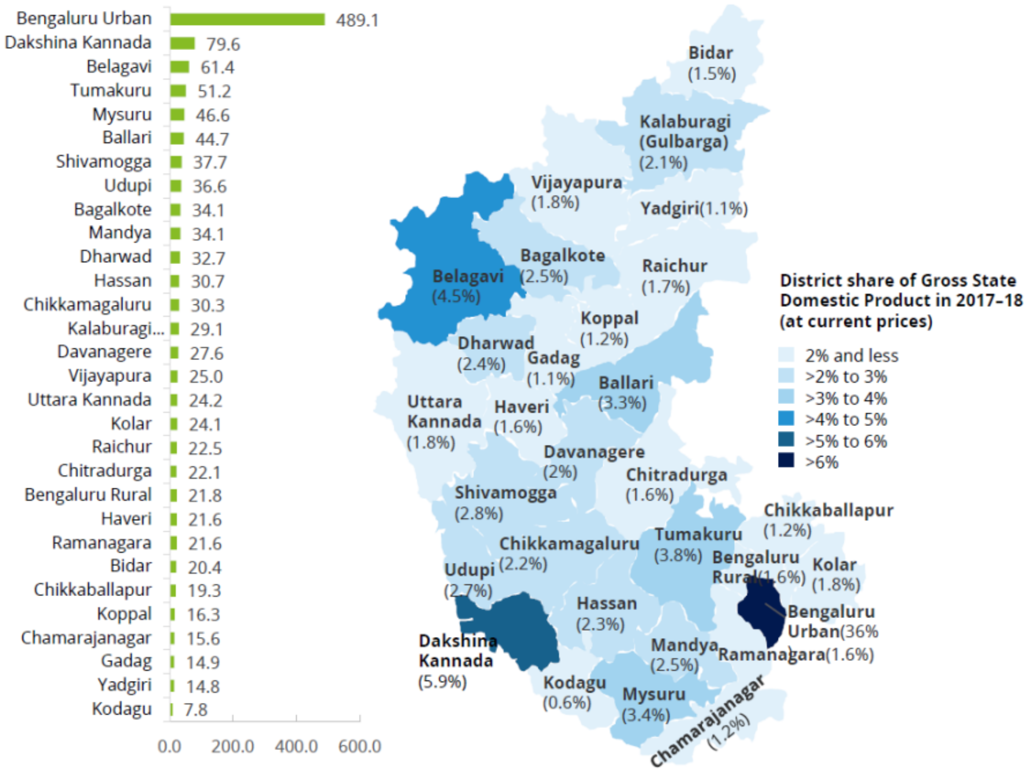
With COVID-19 disruptions peaking in March 2020, the government of India's path of lockdowns was among the strictest implemented anywhere in the world. The Oxford COVID-19 Government Response Tracker rated India's lockdown at a 100 out of a 100 in terms of intensity.v Karnataka's GSDP growth slipped from its expected rate of 6.3% to a negative growth of 1.2% of GSDP leading to a shrinkage of fiscal space for the State.vi Apart from the sharp contraction in economic activities, household data from CMIE shows significant job losses during the period September 2019 to September 2021. Figure 3 shows that Karnataka's routine unemployment level is below India's average. In the lockdown months, however, unemployment rates in Karnataka were higher than the national average. Interestingly, Karnataka's return to work and decline in unemployment levels have been sharper than that of India.

Figure 1: COVID-19 Trends in Karnataka



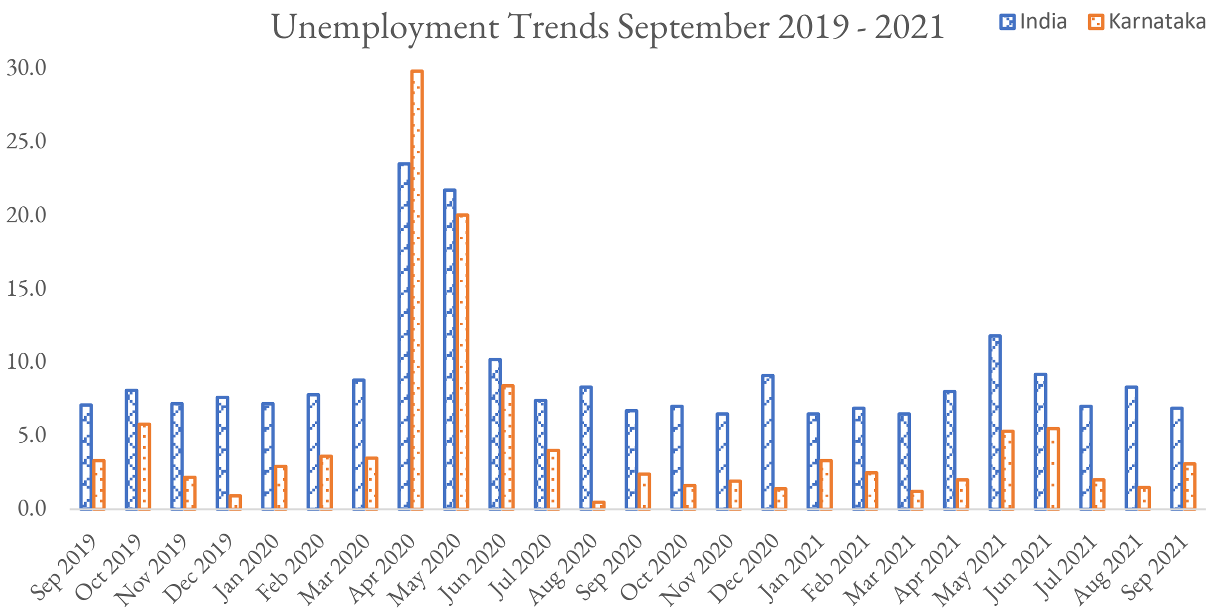
Note: Data is from https://www.covid19india.org/ (accessed 15th October 2021)

Figure 2: Cross-sectional district level heterogeneity in the economic size using GDDP.



Note: The Graph above is taken from Deloitte (2020) that uses data from Economic Survey of Karnataka, 2019-20 to show how economic size of district varies in the left panel in the bar chart and the size of each district relative to the total economy in the map on the right panel. Gross District Domestic Product (at current prices) in 2017-18 or GDDP is measured in Rs '000 crore.

Figure 3 Unemployment Rates in Karnataka and India, September 2019 to September 2021



Note: The graph is constructed from data made available online by the Centre for Monitoring Indian Economy at https://unemploymentinindia.cmie.com (accessed 15th October 2021).

Public Expenditures in Karnataka

Karnataka's commitment to fiscal prudence stems from its Fiscal Responsibility Act of 2002 and is older than the Union FRBM Act of 2003; since then, Karnataka has been within the macroeconomic fiscal targets implied by this commitment. Jacob and Chakraborty (2020) argue that this has been possible in part due to compression of capital expenditure and expenditures on education, healthcare, and nutrition. Thus, there have been constraints on expenditures on social policies as seen wherever public expenditure drives policies and programs.

A comparative picture of revenue collections in the State from April to December in 2020-21 with that of 2019-20 presented in Table 1 shows a sharp decline in the revenues. In 2019-20, by December, the revenue collections amounted to 79% of the budget estimate. In 2020-21, receipts were lower than the previous year, and the collection until December amounted to just 59% of the budget estimate. Both own revenues and transfers from the centre showed contraction. The sharpest shortfall so far has been in terms of devolution from the Government of India, and this stands at 47% of the estimates.

On the expenditure side, there is some evidence that expenditure compression has taken place. By December 2020, only 58% of the total expenditures projected for 2020-21 were implemented, as opposed to 63% in the previous year. However, a large amount of this was committed expenditures such as interest payments, pensions, wages, and salaries which could not be compressed.

In absolute terms, Fiscal Deficit in December was almost twice as large as a year ago. Fiscal Deficit as a %age of GSDP was 0.63% in 2019-20 until December 2020, and this has already risen to 2.55% of GSDP. While the Centre has allowed the States to borrow an additional 2% of GSDP under the Atmanirbhar package and manage the FRBM requirements, this will increase the debt liabilities.

Household Narratives

The macroeconomic consequences clearly suggest a large and abrupt shock to incomes and employment for households in Karnataka. The Consumer Pyramids Household Survey (CPHS), conducted by the Centre for Monitoring Indian Economy (CMIE), is a year-long longitudinal survey that tracks consumption expenditure of households. We use this to understand how incomes and expenditure have changed at the household level.

Table 1 Receipts & Expenditure Glance 2019-20 and April-December-2020

#	Categories	2019-20			2020-21		
		B. E.	Apr-Dec	% B. E.	B. E.	Apr-Dec	% B. E.
1	Revenue Receipts	1,81,863	1,29,657	71%	1,79,920	1,06,249	59%
1a	Own Tax Revenue	1,01,744	74,587	73%	1,11,991	66,439	59%
1b	Own Non-Tax Revenue	8,055	4,708	58%	7,767	4,666	60%
1c	Devolution for GOI	39,806	22,536	57%	28,591	13,550	47%
1d	GIA and Contribution	32,257	27,825	86%	31,570	21,594	68%
2	Capital Receipts (Non- debt)	275	74	27%	297	126	42%
2a	Recovery of loans and Advances	195	48	25%	257	104	40%
2b	Other Non-Debt Capital Receipts	80	26	33%	40	22	55%
3	Total Receipts	1,82,138	1,29,731	71%	1,80,216	1,06,375	59%
3a	Public Debt (Receipt)	48,601	30,342	62%	52,918	63,725	120%
3b	Total Receipts including Public Debt	2,30,738	1,60,073	69%	2,33,134	1,70,100	73%
4	Revenue Expenditure	1,81,605	1,19,501	66%	1,79,776	1,10,081	61%
4a	Interest Payments out of 4	19,060	11,998	63%	22,216	14,301	64%
5	Capital Expenditure	42,584	20,967	49%	46,512	21,337	46%
5a	Loans and Advances disbursed out of 5	3,503	2,000	57%	3,452	1,731	50%
6	Total Expenditure (4+5)	2,24,189	1,40,468	63%	2,26,288	1,31,418	58%
6a	Public Debt	9,964	7,303	73%	11,605	9,440	81%
6b	Total Expenditure including Public Debt	2,34,153	1,47,771	63%	2,37,893	1,40,858	59%
7	Fiscal Deficit (6-3)	42,051	10,737		46,072	25,043	
8	Revenue Deficit (4-1)	-258	-10,156		-143	3,832	
9	Primary Deficit (7-4(a))	22,991	-1,261		23,855	10,742	
	GSDP at Current Prices	16,98,685	16,98,685		18,03,609	18,03,609	
	Fiscal Deficit as % to GSDP	2.48%	0.63%		2.55%	1.39%	
	Revenue Deficit as % to GSDP	-0.02%	-0.60%		-0.01%	0.21%	
	Primary Deficit as % to GSDP	1.35%	-0.07%		1.32%	0.60%	

Source: https://finance.karnataka.gov.in/storage/pdf-files/AGglance_dec20.pdf

The CPHS is a nationally representative survey with a stratified, multi-stage sampling design based on identifying geographically independent units that it terms as - homogenous regions (HRs). Table 2 presents a mapping of the districts of Karnataka into 5 homogenous regions that form the highest geographic unit across which the CMIE is stratified. The other important features of the data are a) its longitudinal structure, and b) continuous data collection, with each household interviewed 3 times a year, making it possible to generate quarterly longitudinal estimates. Even during the pandemic, the interviews were conducted using telephonic method to continue capturing the income and expenditure at state level. Our study uses data from Karnataka from wave 16-21 (i.e., from Jan 2019 to Dec 2020) of the CPHS.

Table 2 CMIE Homogenous Regions within Karnataka

Homogeneous Region	Districts of Karnataka
Bangalore – Kolar	Bangalore, Bangalore Rural, Chikkaballapura, Kolar, Ramanagara
Belgaum - Shimoga	Belgaum, Davanagere, Dharwad, Gadag, Haveri, Shimoga
Bidar - Bellary	Bagalkot, Bellary, Bidar, Bijapur, Gulbarga, Koppal, Raichur, Yadgiri
Chitradurga - Mysore	Chamarajanagar, Chikmagalur, Chitradurga, Hassan, Kodagu, Mandya, Mysore, Tumkur
Uttara Kannada - Dakshin Kannada	Dakshina Kannada, Udupi, Uttara Kannada

Note:The broadest level of stratification is based on a set of districts where agroclimatic conditions, urbanisation levels, female literacy, and household size is factored in to identify a homogenous region.

Table 3 presents quarterly estimates for income and expenditure for the last two quarters of the financial years 2017-18, 2018-19, and 2019-20, and for the first month of 2020-21 for Karnataka. The CPHS data reports both household income (Y) and household expenditure (E); using this, we can calculate the residual category (R = Y – E) to measure the excess of income over expenditure. Mukherji and Shatrunjay (2021) discuss nation-wide trends in income and consumption due to the COVID-19 shock. In this paper, I explore the consequence for Karnataka in detail.

Table 3 The Mean and Dispersion of Income and Expenditure in Karnataka

Cohort	Income		Expenditure		Residual
	(Rs.)	*Gini*	*(Rs.)*	*Gini*	*(Rs.)*
Dec 2017	18,118	0.428	10,612	0.283	7,506
Mar 2018	19,161	0.421	10,961	0.277	8,200
Dec 2018	18,630	0.429	9,947	0.282	8,684
Mar 2019	17,256	0.423	10,125	0.269	7,131
Dec 2019	20,228	0.409	11,296	0.268	8,932
Mar 2020	25,570	0.438	11,016	0.282	14,554

Source:

1. Author calculations from CMIE's CPHS data.

2. The month of April includes April – June quarter households who were interviewed in April 2020. All other row includes households in all three months of the quarter.

3. COV = [(standard deviation/mean) *100] is the coefficient of variation.

4. CPHS data reports household income and consumption expenditure. We construct R = Y – E as the excess of income over current consumption expenditure.

5. All ₹s are in nominal terms and are not inflation adjusted.

Table 3 shows that household budgets have been deeply affected by COVID-19 – incomes declined by 14% in the January-March 2020 cohort, and further reduced by 38% in April 2020. This is in line with the 23.9% decline in GDP reported by MoSPI for the April – June quarter.vii Further, the increase in Coefficient of Variation (CoV) suggests that this loss of income has accentuated the dispersion of income; some households must have been impacted more than other households. While monthly consumption expenditure also shows a 40% decline from its average levels in April 2020, this decline does not see too much change in dispersion. Thus, while mean consumption (and hence welfare) has gone down, the entire sample has been affected more or less uniformly. Finally, the Residual income absorbs all the variation in income and is crucial in ensuring that households maintain their monthly consumption; mean levels of R decline, and the CoV increases – it almost doubles! Thus, with variance of consumption expenditure being smaller than the variance of household incomes, households appear to be relying on residual incomes to try and maintain their consumption expenditure. However, this dependence is not sufficient to insure against income losses faced by households.

Clearly, the impact of COVID-19 on the distribution of income and expenditure is quite significant. Another way to see this is to bifurcate these aggregate numbers based on education (see Table 4). CMIE classifies households based on the educational status of all adults in a household. Households where all adults are illiterate see the Gini Coefficient rise by almost 0.05 points between March 2019 and March 2020. This is a very large increase in inequality and suggests sharp and rapid economic polarization for illiterate parents and their children. A similar but smaller increase in inequality is seen for households with some literates, as well as for households where all adults are literate. Interestingly these are consistent with a decline in reported average incomes for all illiterates, but an increase in reported average incomes for households made up of all literates and some literates. Other household categories show no change in inequality but a rise in incomes; for example, the category of households where all adults in the household hold a graduate degree. Thus, there is clear evidence that in Karnataka, the households with poorer educational endowments were significantly and negatively affected and they experienced large fluctuations in incomes, as well as in expenditures. This would have negatively affected private expenditure on children, particularly among those with lower levels of education as well.

Table 4 Incomes Distribution across the Education gradient

Education Level	Cohort	Averages			Gini Coefficient
		R	*E*	*Y*	*(Income)*
All Graduates household	Dec 2018	15,961	12,214	8,175	0.360
All Graduates household	Mar 2019	12,443	13,677	6,120	0.356
All Graduates household	Dec 2019	15,639	19,446	5,085	0.352
All Graduates household	Mar 2020	29,215	21,227	0,442	0.343
All Matriculates household	Dec 2018	7,834	9,905	7,739	0.388
All Matriculates household	Mar 2019	6,444	9,732	6,176	0.378
All Matriculates household	Dec 2019	7,576	10,766	8,342	0.365
All Matriculates household	Mar 2020	9,607	9,413	9,020	0.379
Graduate majority household	Dec 2018	13,007	12,068	5,075	0.372
Graduate majority household	Mar 2019	10,813	12,574	3,387	0.362
Graduate majority household	Dec 2019	14,257	14,941	9,198	0.351
Graduate majority household	Mar 2020	20,863	14,911	5,774	0.335

Graduate minority household	Dec 2018	13,057	11,733	4,790	0.372
Graduate minority household	Mar 2019	10,703	12,412	3,115	0.375
Graduate minority household	Dec 2019	13,077	13,878	6,955	0.353
Graduate minority household	Mar 2020	25,026	15,187	0,212	0.358
Households of all illiterates	Dec 2018	4,072	7,319	1,391	0.338
Households of all illiterates	Mar 2019	4,596	7,658	2,254	0.368
Households of all illiterates	Dec 2019	6,172	8,054	4,227	0.364
Households of all illiterates	Mar 2020	5,952	6,055	2,006	0.414
Households of all literates	Dec 2018	6,007	8,672	4,678	0.364
Households of all literates	Mar 2019	5,165	8,752	3,917	0.365
Households of all literates	Dec 2019	6,809	9,715	6,524	0.358
Households of all literates	Mar 2020	9,508	8,797	18,305	0.395
Households of some literates	Dec 2018	5,138	8,523	13,661	0.352
Households of some literates	Mar 2019	4,975	9,386	14,362	0.373
Households of some literates	Dec 2019	6,260	8,601	14,861	0.354
Households of some literates	Mar 2020	14,357	8,993	23,350	0.417
Matriculates majority household	Dec 2018	7,544	9,605	17,148	0.387
Matriculates majority household	Mar 2019	6,199	9,638	15,836	0.380
Matriculates majority household	Dec 2019	7,546	10,153	17,699	0.365
Matriculates majority household	Mar 2020	12,151	9,331	21,481	0.389
Matriculates minority household	Dec 2018	10,184	9,748	19,932	0.381
Matriculates minority household	Mar 2019	8,035	10,172	18,207	0.378
Matriculates minority household	Dec 2019	10,513	10,757	21,270	0.373
Matriculates minority household	Mar 2020	13,025	10,007	23,032	0.394

Child Rights and Budgetary Allocation for Children's Health and Nutrition

Child rights in India were first formalized in the Constitution of India where all children are guaranteed each of the fundamental rights (United Nations, 1960; HAQ 2015). Subsequently, in 1974, with the adoption of the First National Policy for Children, children were declared to be the "supremely important assets". These articulations run in parallel to the international commitments in world under the aegis of the UN General Assembly of 1959 where in the UN Declaration of the Rights of Child 1959 placed importance on children's nutrition, free education, access to health care, and freedom from exploitation and discrimination (United Nations, 1960). Emphasis on children and child rights are today formalized internationally within almost 19 different indicators of the Sustainable Development Goals (see Table 5). Placed under the aegis of the UNICEF, the SDGs provides a common framework for tracking the status of children globally.

Table 5 Sustainable Development Goals owned by UNICEF

Sl. No.	Custodian Indicators	Co-Custodian Indicators
1	*Under 5 mortality*	*Skilled Attendant at Birth*
2	*Neo-Natal Mortality*	*Fully Immunized children*
3	*Early Child Development*	Sexual Violence against women and girls, by intimate partner
4	*Child Marriage*	Sexual Violence against women and girls, by others (not IP)
5	*Female Genital Mutilation*	Safely Managed Water
6	*Child Discipline*	Safely Managed Sanitation and Handwashing
7	*Sexual Violence Against Children*	*Child Labour*
8	Pro-Poor Public Social Spending	*Birth Registration*
9		*Stunting*
10		*Wasting/Overweight*
11		Anaemia in Women

Source: https://data.unicef.org/children-sustainable-development-goals/

Note: The italicized ones are directly related to children, while the remaining create a supportive ecosystem for children.

Within India, the legal basis for defining a child is driven by the context in which the child or a minor is being viewed. I summarize these differences in Table 6. This heterogeneity is important in the context of this paper, since programs designed for children target different age groups, and are often run by different departments. Thus, public expenditure on children is not uniform, whether in terms of the level at all ages, or in terms of symmetry of spending across government departments for individuals in the entire 0-18 age group.

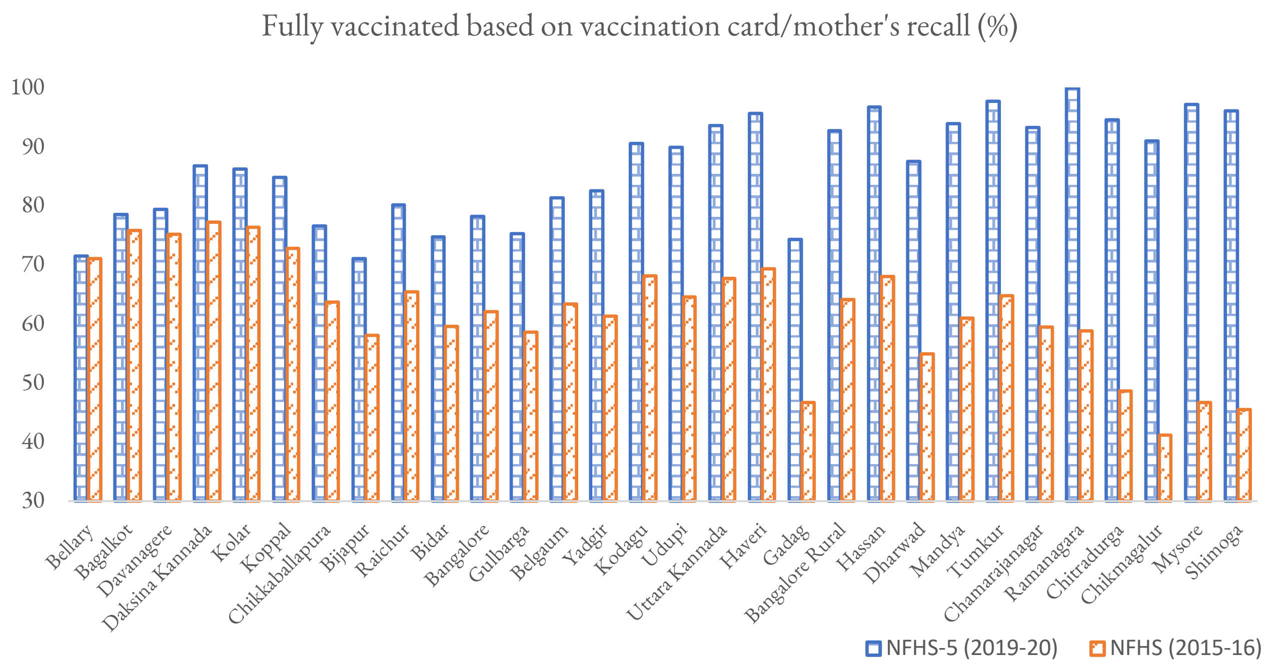
Table 6 Definition of a Child in India

Some Regulations Pertaining to Children in India	Age (in years)			
	0-14	<15	15-16	16-18
The Child Labour (Protection and Regulation) Act, 1986				
The Beedi and Cigar Workers (Conditions of Employment) Act, 1966				
The Plantations Labour Act, 1951				
The Motor Transport Workers Act, 1961				
The Protection of Children from sexual offences Act, 2012				
The Juvenile Justice (Care and Protection of Children) Act, 2015				
UN Convention on the Rights of the Child 1989				

Source: Sharma (2019)

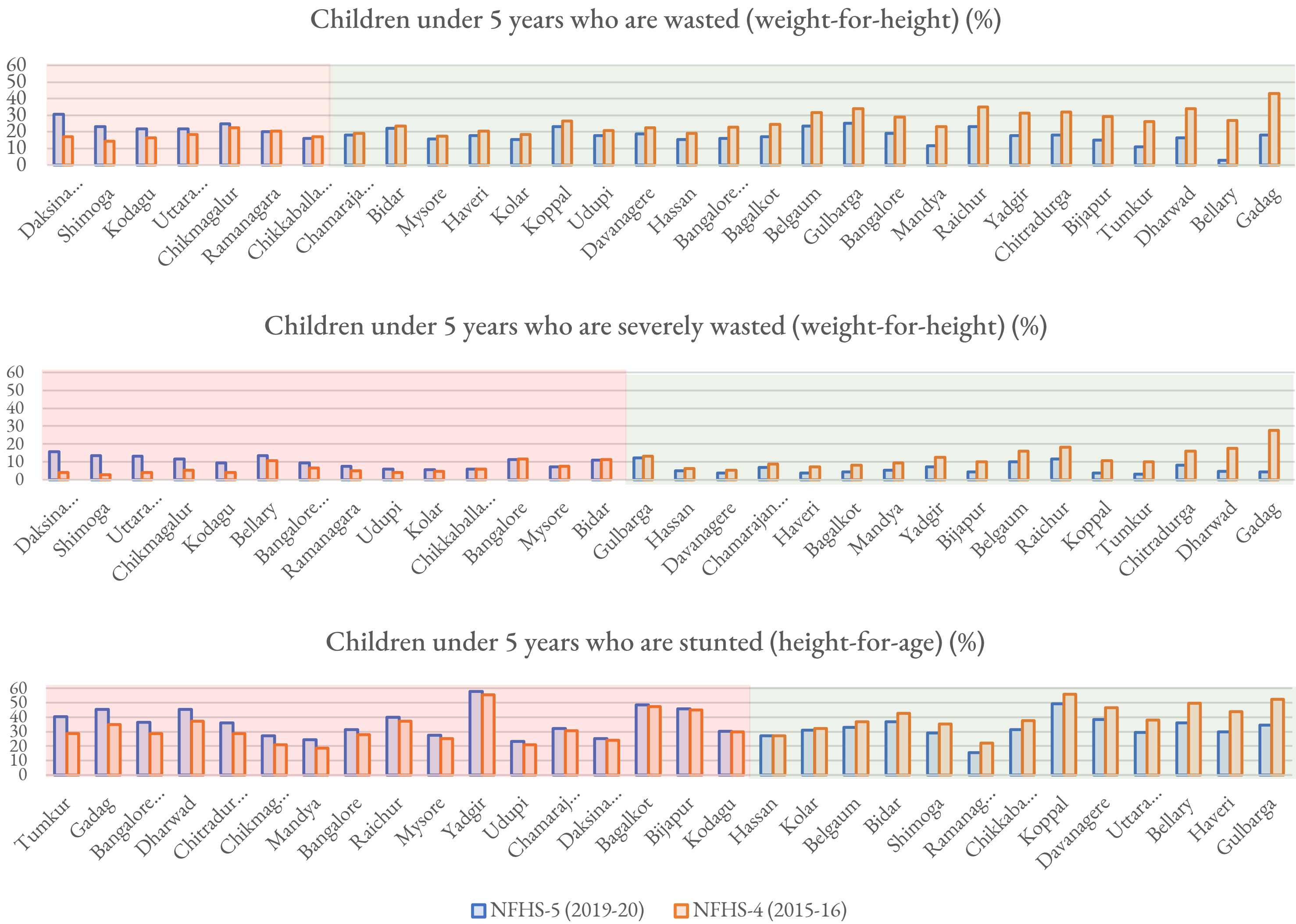
The most recent round of data released by the National Family and Health Survey, Wave 5 (NFHS-5) provides some interesting assessment of child health for the year 2019-20. Health status of children in the age group of 0-5 years are easily tracked for nutrition, vaccination, and a range of other measures pertaining to early childhood. However, nationally or state-level representative data on children in the age group of 5-18 years of age is scarce, as there are no surveys that track the health status of individuals in this group. For example, NFHS-5 collects data on women in the 15-45 years age group, covering 3 of these 13 years. Unit level data of NFHS-5 remains unavailable till date. However, district level factsheets have been shared, and we study this to generate insights on children in different age-groups.

Figure 4 Vaccination trends of children aged 12-23 months in the last five years.



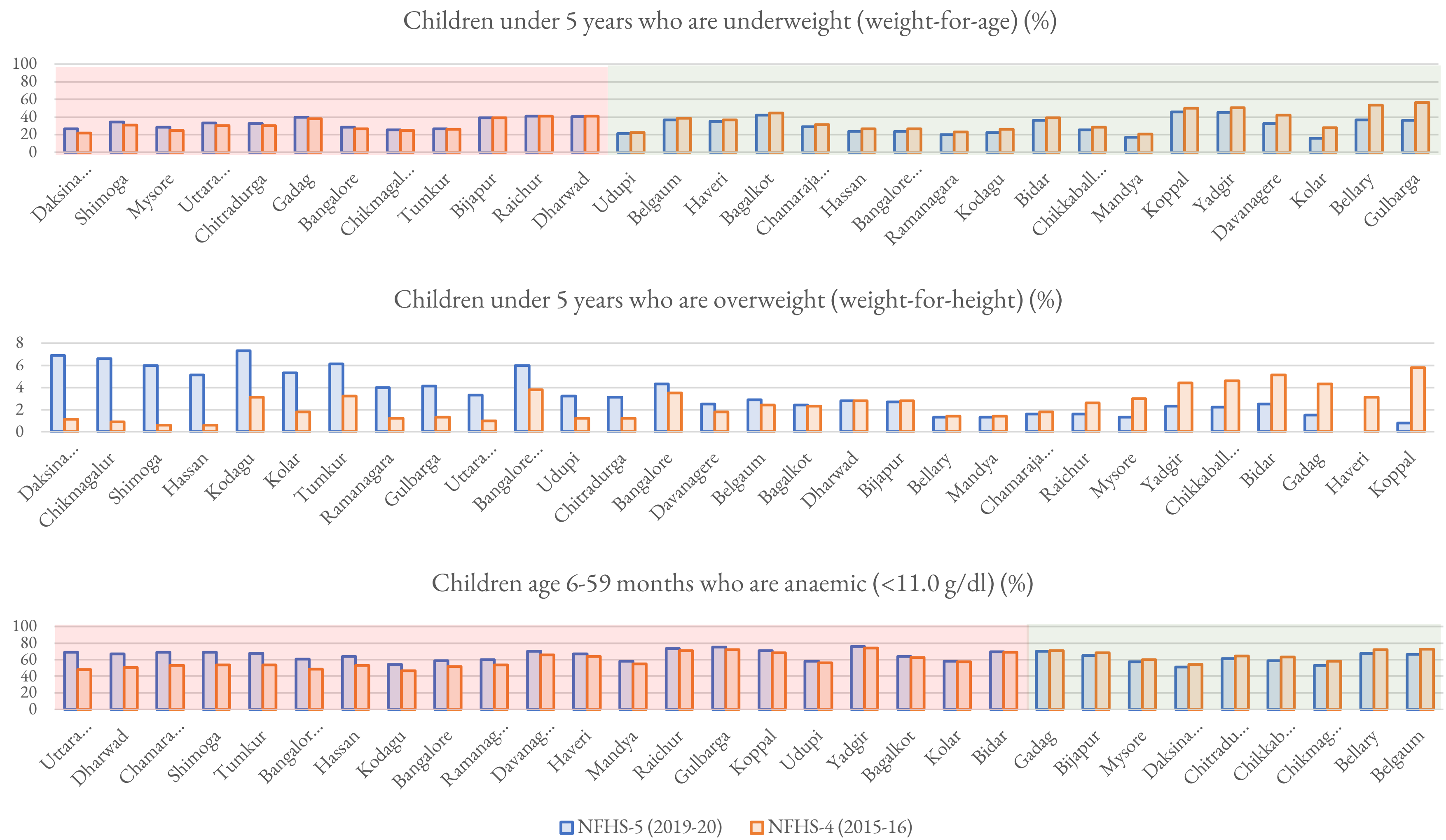
Note: Districts sorted by smallest vaccination gains between waves on the left, to the largest gains on the right

Figure 5 Wasting and Stunting trends of children less than 5 years old in Karnataka, in past five years.



Note: Districts sorted by largest reversals in child health status on the left (shaded red) to the largest gains on the right (shaded green).

Figure 6 Trends in Nutritional Status of Children in Districts of Karnataka



Note: Districts sorted by largest reversals in child nutritional status on the left (shaded red) to the largest gains on the right (shaded green).

Schemes for Children in Karnataka

The Government of Karnataka issued its first child budget for the year 2020-21 on March 2020, by funding 279 programmes with an allocation of Rs. INR 36340 Crore for children below 18 years. Karnataka joins a select group of states (Kerala, Assam, Bihar, and Orissa) that have a separate budgetary allocation for child development. Following practice in classification of child-centric grants in the State Budget of Karnataka, a scheme may be classified as either a 100% Child-Centric Allocation (100CCA) or a less than 100% Child-Centric Allocation (L100CCA). The 100CCA allocations are for programs or activities that directly benefit children or pregnant and lactating mothers, such as the many nutritional schemes (ICDS, *Poshan Abhiyan*) that apply to only these groups. The L100CCA allocations are those that indirectly benefit children, such as provisions for aid to the disabled, or the National Health Mission that focuses on the general population. For the current financial year (2020-21) child budget's major focus for programme are in the areas of education (67%), health (16%), nutrition (13%), protection (1%) and others (3%). Jha et al. (2019) present a comprehensive summary of trends and patterns of public expenditure for children in Karnataka.

Focusing on general health (excluding mental health) and nutrition-related allocations, I focus on 15 programs and activities listed in Table 7. Broadly, these are split into 4 categories: a) Health, b) Health, Nutrition and Welfare, c) Nutrition, and d) Social Welfare. Collectively, these 15 programs have a fiscal footprint of Rs. 5,410.543 Crore and Figure 7 shows that categories a) and b), both pertaining to health, each contribute about 28% and 29% respectively of the total expenditure. Further, Nutrition accounts for 39% of the total expenditure made under this set of 15 programs and activities. These programs collectively target the age group of 0-18 years and capture many aspects of the SDG goals that are relevant to children (UNICEF 2017). Figure 8 classifies the 15 schemes based on the Sustainable Development Goals (SDGs) indicators that they influence. It is relatively easy to map these schemes as per the set of SDG indicators that relate to children and are the responsibility of the UNICEFviii. The length of the bar indicates the intensity of focus of the respective SDG indicator. The longest of the bars pertain to pro-poor public spending and early childhood development indicating that these are the focus of these 15 government schemes.

Table 1 Child Centric Programs Being Studied

Category	Programmes	Beneficiaries	Type	Budget 2020-21 *(in Rs. Lakhs)*
Health	National Health Mission (NHM)	Children (0-18 years)	L100CCA	1,39,000.0
	Aids and Appliances for the Disabled	Children (0-18 years)	L100CCA	2,220.0
	Suchi Programme	Adolescent girls (10-18 years)	100CCA	4,700.0
	Indira Gandhi Institute of Child Health	Children (0-18 years)	100CCA	5,171.0
	Construction of 450-Bed Hospital at Indira Gandhi Institute of Child Health	Children (0-18 years)	100CCA	2,000.0
Health, Nutrition, and Welfare	Creches for Working Mothers	Children 0-6 years	100CCA	500.0
	Block Grants	Children 0-6 years	100CCA	30.0
	Integrated Child Development Service (ICDS)	children (0-6 years) + Adolescent girls (10-18 years)	100CCA	1,57,091.8
Nutrition	Block Grants (ICDS-National Nutrition Mission (NNM))	Children 0-6 years	100CCA	1,97,174.5
	Meeting Medical Expenses of Malnourished Children (Balasanjivini)	Severely malnourished children (0-6 years).	100CCA	200.0
	Poshan Abhiyaan (National Nutrition Mission)	Children (0-6 years) + Adolescent girls (10-18 years)	100CCA	12,500.0
	Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (SABALA)	Girls in the age group of (11-18) years	100CCA	712.0
Social Welfare	Scholarship to the Physically Handicapped	School-going Children (5 - 18 years)	100CCA	625.0
Social welfare	Integrated Child Protection Scheme	Children (0-18 years)	100CCA	9,130.0
Social welfare	Bhagya Lakshmi	Girl children (0-18) in BPL families	100CCA	10,000.0
			Total	5,41,054.3

Note: This set of 15 activities (programs and non-programs) are from Demand No. 11 (WCD) and 22 (HFW). *Source*: GoK Link document.

Figure 7 Sectoral Share of Expenditures across Programs

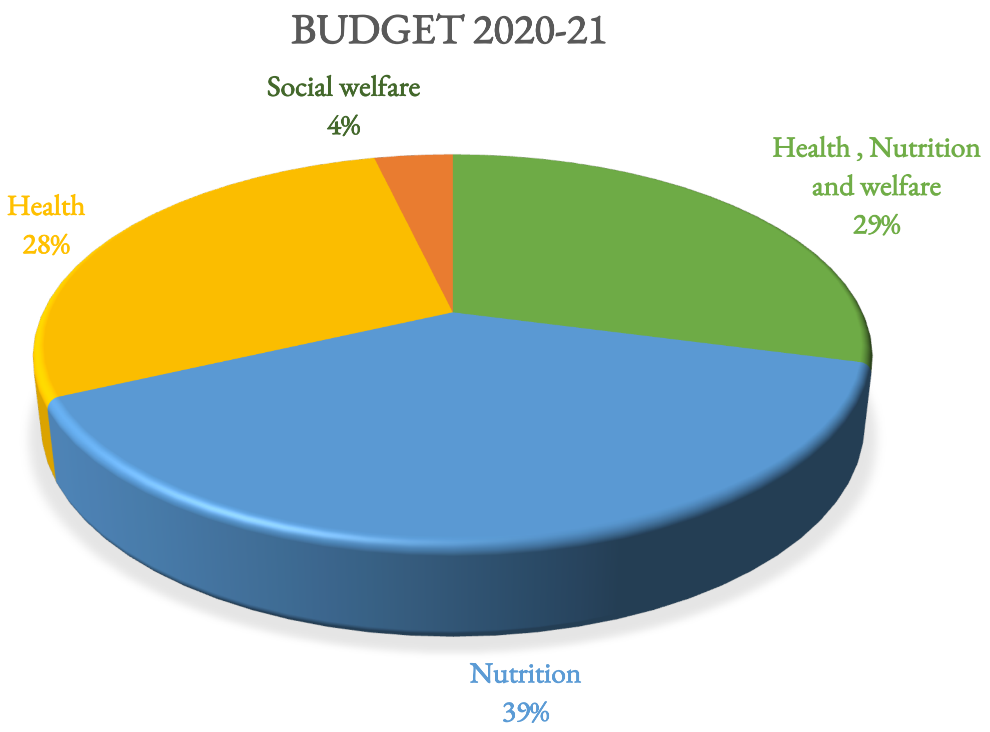
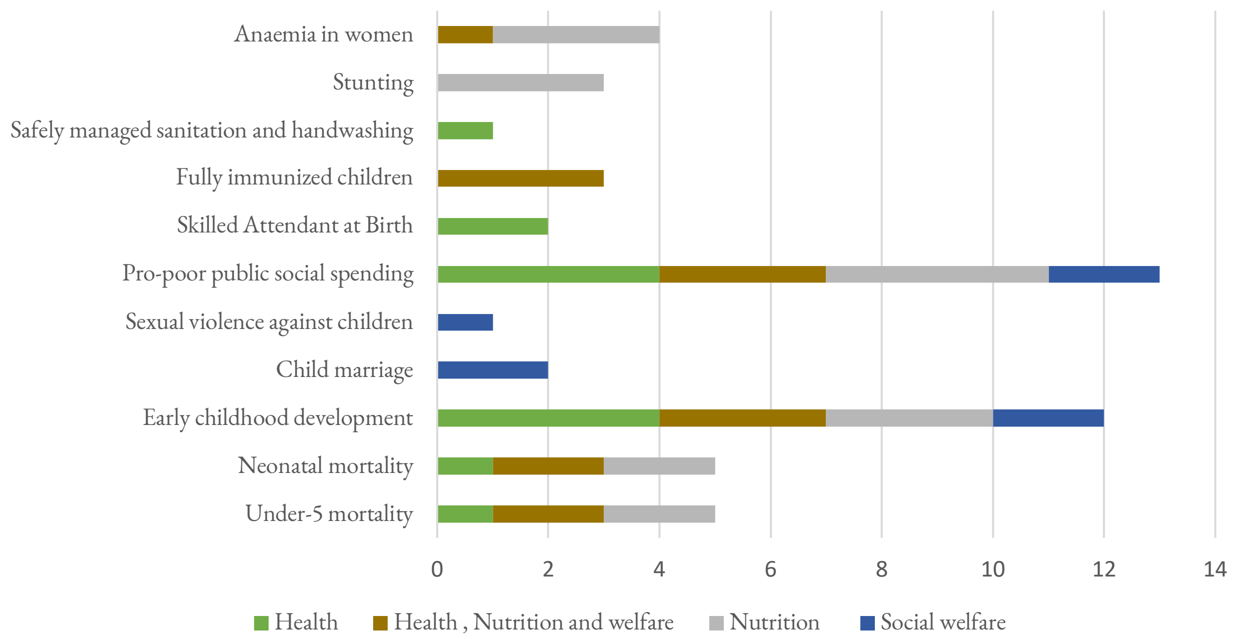


Figure 8 Classification of Child Centric Programs from different sectors by SDG Indicators



Thus, the diversity of the schemes represents a useful mix as they are currently structured. Of the indicators that are not mapped onto these, for example, female genital mutilation, or safely managed water, some are perhaps culturally not relevant, while others would be captured outside the set of schemes that we are studying. Table 7 also documents the allocations that have been made in 2020-21 and three programs and activities account for about 91% of the total allocation.

The largest of all the allocations is for the Block Grants pertaining to National Nutrition Mission activities under ICDS, with an allocation of Rs. 1971.74 Crore, accounting for about 36% of the total allocation in the group of schemes we study. These Block Grants were initiated in 1975 as a part of the ICDS, and have a 50:50 sharing norm in financial allocations between the Union Government and the State Government. The objective of the Block Grant is to provide nutritious food to children in the 0-6 years age group. The norm for providing nutritious food includes (a) 500 calories of energy and 12-15 gms of protein to 0-6 year-old children, (b) 600 calories of energy and 18-20 gms of protein to pregnant women/ lactating mothers/ adolescent girls and (c) 800 calories of energy and 20-25 gms of protein to severely malnourished children as a supplement to their normal intake to promote early childhood nutrition and development.

The second largest activity in terms of financial allocation is also associated with the ICDS, and captures the remaining part of the activities under this; this constitutes 29% of the total allocation to these programs and activities. ICDS beneficiaries include children in the 0-6 years of age as well as adolescent girls in the 10-18 years of age. Starting in 1975, this is funded by the Union government and relates to proving health check-up, immunization, nutrition and health education, pre-school education, supplementary nutrition, and referral services for children. Being a scheme that has been in place for decades, ICDS has seen several evaluations of note and in general the design of the program is widely appreciated (Gragnolati et al. 2006). A key concern has been the failure to eradicate malnutrition among children despite an appropriate design for the scheme. Gragnolati et al. (2006) suggest that more can be done by reaching younger children, specifically, those in the 0-3 years of age, better targeting of poorer states, and by extension, poorer districts, and gram panchayats.

The third largest activity in terms of financial allocation is the National Health Mission (NHM). NHM receives 26% of the total allocation to these schemes. Initiated in 2005 as the National Rural Health Mission, NHM is a program with shared financial responsibilities of 60:40 between the Union government and the State. Targeting children in the 0-18 years of age, NHM is designed to provide accessible, affordable, and quality health care, especially to vulnerable groups such as Women, Scheduled Castes (SC), Scheduled Tribes (ST), Children, Aged, Disabled, Poor migrants, People living with HIV/AIDS, and Sexual Minorities. Some of the key components of NHM are: (i) NRHMRCH Flexi pool, (ii) NUHM Flexi pool, (iii) Flexible pool for Communicable disease, (iv) Flexible pool for non-communicable diseases including Injury and Trauma, (v) Infrastructure Maintenance and (vi) Family Welfare Central Sector component[ix].

Choudhury and Mohanty (2018) analyse the public finance foundation of NHM and document that across 29 states of India, only 55% of funds allocated to NHM were utilized in 2015-16 and 2016-17. The authors reflect that NHM's design places its activities outside the administrative framework of the state government to give it flexibility. However, its rigid framework and its fragmented approach to financial management has led to poor utilization of funds under NHM.

Defining Priority Areas

An area may be deemed as a priority either on account of its importance on theoretical grounds, in so far as child development, health, and nutrition particularly are concerned, or because it is a domain that needs urgent reform or re-design to enable better functioning of a given scheme. Without careful analysis of scheme-specific details, it is difficult to assess this kind of priority. Instead, I focus on the idea of geographic priority as a means of identifying regions where programmatic intervention is of the utmost importance. Specifically, I use the recently-released NFHS 5 fact sheets to identify geographic priorities that must be kept in mind in any planning or re-budgeting exercise that may be of relevance in a year where COVID-19 has affected both the macroeconomic balance, as well as reduced the fiscal space within which governments must prioritise its expenditures.

Table 8 seeks to identify how each district in the state of Karnataka has performed on 6 child health dimensions between 2015-16 and 2019-20, i.e., pre-COVID-19. These 6 dimensions are wasting, severe wasting, stunting, weight-for-age, anaemia, and vaccination status for children, largely in the 0-5 years age group. These dimensions broadly capture health- and nutrition-related indicators for children; not only do they overlap with the first 3000 days of life, when interventions have the highest value, but they also pertain to the age-group for whom past program implementation literature suggests programs tend to be the weakest.

For each indicator we assess if a district is doing better in 2019-20 than in 2015-16 as per the NFHS surveys. If a district is doing worse on an indicator, for example, in 2015-16, if the fraction of children who were wasted was lower than the fraction of children who are wasted in 2019-20, then we colour this cell **red** to indicate things have become worse and the district is falling behind its own achievements in the last 5 years. For the indicator on wasting, this is true for the districts of Uttara Kannada, Shimoga, Dakshin Kannada, and Chikmagalur. In general, with rising incomes, health indicators and child health indicators tend to improve with time. Thus, if we see a modest gain, between 0 – 5% points on an indicator within a district, we colour this district **yellow**. Thus, for Anaemia, we find that 21 of the 30 districts report higher levels of Anaemia in 2019-20 than in 2015-16, and are coloured red, but in 8 of the remaining 9 districts there have been modest gains, and these have been coloured yellow. The remaining district, Belgaum, is the only district to report a significant decline (anaemia levels in 2019-20 are more than 5% lower when compared to 2015-16) and thus is coded **light green**. In some instance there have been significant improvements in health outcome for example, in Bijapur, wasting was reduced to 15% from 29.1% in the last 5 years. Similarly, Gulbarga's rates of stunting declined from 52% to 34.5%, while vaccination rates have risen sharply across Karnataka, with 17 districts recording more than a 25%-point increase in vaccine coverage rates. These large improvements are coloured in **dark green**.

Table 2 District Child Health Status according to extent of Decline between NFHS waves

Districts of Karnataka	Wasting	Severe Wasting	Stunted	Weight for Age	Anaemic	Vaccination	Falling Behind (#Red/6)
Bagalkot							33%
Bangalore							50%
Bangalore Rural							50%
Belgaum							0%
Bellary							17%
Bidar							17%
Bijapur							33%
Chamarajanagar							33%
Chikkaballapura							17%
Chikmagalur							67%
Chitradurga							33%
Daksina Kannada							67%
Davanagere							17%
Dharwad							33%
Gadag							33%
Gulbarga							17%
Hassan							33%
Haveri							17%
Kodagu							67%
Kolar							33%
Koppal							17%
Mandya							33%
Mysore							33%
Raichur							33%
Ramanagara							33%
Shimoga							67%
Tumkur							50%
Udupi							50%
Uttara Kannada							67%
Yadgir							33%

Note: Columns on Wasting, Severe Wasting, Stunting, Weight for Age, Anaemia, and Vaccination are constructed from NFHS-4 and NFHS-5 data. Districts falling behind are coloured in red. Districts that show modest gains, i.e., gains less than 5% between the waves, are coloured yellow, while larger gains are coloured green and, in some cases, exceptional gains are coloured in dark green. The last column simply measures the fraction of dimensions on which a state is falling behind (i.e., is red) out of the 6 dimensions; thus, larger values indicate falling behind on a greater number of dimensions. The colour coding for the last column is dark green if there are no reds (0%), yellow if there are 1 or 2 reds (17% or 33%) and red for 3 or more reds (50% or 67%). On Anaemia, 21 out of 30 districts register a decline in NFHS-5 when compared to NFHS-4 indicating that anaemia is perhaps the most widespread deficit in Karnataka.

Thus, we have classified each district into one of 4 categories (Red, Yellow, Light Green, Dark Green) that are broadly consistent with Falling Behind, Modest Gain, Good Gains, and Significant Gains. Table 8 shows that 17% of the districts are falling behind on Wasting, 37% of the districts are falling behind on Severe Wasting, 63% of districts are falling behind on Stunting, 33% of districts are falling behind on Weight-for-Age and 70% of districts are falling behind on Anaemia. No district has fallen behind on Vaccination rates, indicating that on this one measure there is resounding improvement in the last 5 years. Reading down the columns of Table 8 gives us a way to prioritize which dimensions of health and nutrition need critical attention. In this sense, in Karnataka, severe wasting and anaemia are two very important domains on which many districts were failing to meet their achievements of the past 5 years even before COVID-19 became widespread.

The last column of Table 7 calculates the ratio of the number of dimensions on which a district is falling behind (i.e., is red) to the total number of dimensions. Districts with a ratio of 50% or more are coloured red in this column to identify districts where there is a convergence of failures on multiple dimensions. For example, Chikmagalur and Dakshin Kannada both have a score of 67% indicating that it is falling behind on 4 of the 6 dimensions; these are Wasting, Severe Wasting, Stunting, and Weight-for-Age. Similarly, Udupi has a score of 50% and is falling behind its 2015-16 numbers on Severe Wasting, Stunting, and Anaemia. Thus, this column identifies a geographic focus of where the priority is most needed.

Discussions

The COVID-19 pandemic has affected every part of the world, including children, and in multiple dimensions. The Human Development Report for 2020 summarizes this by noting that COVID-19

> "crisis is hitting hard on all of human development's constitutive elements: income (with the largest contraction in economic activity since the Great Depression), health (directly causing a death toll over 300,000 and indirectly leading potentially to an additional 6,000 child deaths every day from preventable causes over the next 6 months) and education (with effective out-of-school rates – meaning, accounting for the inability to access the internet – in primary education expected to drop to the levels of actual rates of the mid-1980s levels). This, not counting less visible indirect effects, including increased domestic violence, yet to be fully documented.[x]

While the entire world is affected, children are particularly vulnerable with little ability to voice their challenges, and the first 1000 days of child's life is a period where we now recognize that investments tend to be critical for nurture and long-term behavioural and cognitive development of the child. Clearly, COVID-19 has disrupted the ability of households in taking care of children, as well as affected the routine functioning of various social policies that target children. In this paper we focussed on households and social policy in the state of Karnataka to see how children and policies that target child health and nutrition may be better prioritized or targeted.

COVID-19-driven disruptions to the economy have first and foremost affected households' abilities to earn incomes, particularly for those who were in the informal sector. As analysed in Section

II, incomes have declined across education and occupational categories, with the Gini coefficient rising indicating rising inequalities, some of which have reversed gains that have taken decades to achieve. In Karnataka, quarterly fluctuations in income and expenditure have increased significantly when we compare COVID-19-affected quarters to pre-COVID-19 quarters. The difference between income and expenditure, reflecting the sum of dissaving, gifts, borrowing, asset sales, etc. has been even more volatile, indicating significant dependence on financing routine expenditures outside of income. Children at home are thus living in more economically challenging conditions than ever before; combined with study from home policies, their reliance on the home environment has also become much deeper than ever before, at a time when some households will clearly struggle in providing for children.

At the level of Social Policy too we see that there have been widespread reports of government schemes stalling in the media[xi].

There is clearly evidence of rising deficits and debt of the State Government of Karnataka, as it tries to sustain its expenditures in the face of diminishing revenues and reduced transfers from the Union government. Allocations to policies that affect children have not seen a drastic cut yet, but the position becomes clear when we get the actual numbers for 2020-21. Hardening budget constraints force reprioritisation, and it is not yet clear how this will impact the allocation to child-centric programmes.

NFHS-5 data clearly establishes that even as Karnataka was entering COVID-19 children were doing worse than 5 years ago, i.e., they were doing worse in 2019-20 than in 2015-16. A close look at the data shows that on health and malnutrition measures children were worse off in 2019-20, suggesting that the existing schemes and programs have not led to such improvements as may have been envisaged. Further, the district-level fact sheets enable us to identify identify district-level hotspots where child health and nutritional measures became worse on multiple dimensions, illustrating a convergence of challenges that child-centric social policy faces. Urgency in action is needed to address these deficits, which would only have been accentuated due to COVID-19 and the associated economy wide lockdown.

With vaccination trends improving significantly in the last 5 years of the indicators we studied, it turns out that many of the indicators of under-nutrition for children are worse particularly in the districts of Bangalore Rural, Belgaum, Chikmagalur, Dakshin Kannada, Kodagu, Shimoga, Tumkur, Udupi, and Uttara Kannada. What is surprising is that not all of these are poor in per capita terms, suggesting that the existing pattern of programs is systematically unable to identify "at risk" children. With India's ranking on the HGI 2021 falling behind its South Asian and economic comparators, it is critical we begin urgently directing programmatic focus on children's health and nutritional status through restructuring and better delivery in high priority areas. Thus, identifying districts where child development is weak will provide operational guidance on taking corrective steps to strengthen child development. With an uncertain third wave of COVID-19, and challenges to lives, livelihoods and reducing government's fiscal footprint, child development is at risk. Prioritizing and focussing attention to places with multiple failures can be crucial to ensuring children in Karnataka have a secure future, and more broadly that India reverses its slide on HGI rankings.

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NOTES

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ii The Global Hunger Index (HGI) is annually published jointly by the Concern Worldwide and Welthungerhilfe. HGI comprehensively measures and tracks hunger with the aim to trigger action to reduce hunger around the world. India's HGI score has declined from 38.8 points (2000) to 27.5 (2021) in the past two decades. See https://www.globalhungerindex.org/india.html for details.

iii Angwanwadis are pre-school, childcare centres that also provides nutritional programs and services to pregnant and lactating women. Originally conceived in 1975 as a part of the Integrated Child Development Services, they remain key to any nation wide strategy for reducing child and maternal hunger and malnutrition.

iv See Johari, A. (2020) "With Anganwadis locked down across India, children are missing out on vaccines and nutrition", Scroll, July 5th, see online at: https://tinyurl.com/yclxs4vw.

v https://www.statista.com/chart/22048/university-of-oxford-coronavirus-containment-and-health-index-selected-countries/

vi https://timesofindia.indiatimes.com/city/bengaluru/karnataka-12-economic-contraction-estimated-before-budget/articleshowprint/80555133.cms

vii https://thewire.in/economy/india-economy-gdp-q1-decline-coronavirus-lockdown

viii See https://data.unicef.org/sdgs/

ix NHM and details of its key components are discussed in https://nhm.gov.in/images/pdf/NHM/NHM_more_information.pdf. Many of the activities under NHM directly or indirectly affect child development.

x COVID-19 and Human Development: Assessing the Crisis, Envisioning the Recovery | Human Development Reports (undp.org)

xi Several articles document disrupted delivery of public programs for example, Johari (2020), Rajendra, Sarin and Singhal (2021), "Covid-19: How well are government schemes supporting Bihar's vulnerable populations?", Ideas for India, 18th March, and A. Sharma (2021), "Pandemic relief packages must prioritise school education – but India is failing to do that", The Scroll, 18th February.

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Bureaucratic Indecision and Risk Aversion in India

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Avanti Durani[4] **Ayush Patel**[5i]

Abstract

The Indian bureaucracy suffers from indecision and risk aversion, resulting in an inordinate focus on routine tasks, coordination failures, process overload, poor perception, motivational issues, and a deterioration in the quality of service delivery. We argue that bureaucratic indecision, in large part, is a form of rational self-preservation exercised by bureaucrats from the various legal and extra-legal risks to their person, careers and reputation. These risks originate from problems of organizational design, institutional norms, and other political factors. The research for this paper included a review of interdisciplinary literature on bureaucracy and policy decisions, combined with semi-structured interviews. We interviewed current and ex-bureaucrats from India and other Asian and African countries, political scientists, and other policy researchers. We also conducted a document analysis of historical and contemporary, administrative, and legal documents, including committee reports, acts and rules, annual reports, and other government publications. We summarise the evidence on factors such as penal transfers, overload, inadequate training, process accountability, contradictory rules, and political patronage.

Keywords: Bureaucracy, Decision-making, Risk-aversion, Administrative, Reforms, Norms, Rule-based, Accountability

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I Introduction and Motivation

1. Personal Risks and Bureaucratic Indecision

Policies are frequently subject to failure. There may be financial obstacles, implementation delays, or other unintended circumstances. Often, these factors are not within the control of the bureaucrats who take the implementation decisions. Let us refer to these decisions as policy risks, i.e., the risk of failing to deliver the intended public good or service. Such policy failures also have consequences for bureaucrats' reputation, career progression, financial standing, and motivation. These decisions therefore also carry personal risk for the bureaucrat i.e., the risk of being transferred, investigated, or accused of corruption or reputationally maligned. In the Indian context, under various capacity constraints, electoral and policy considerations are frequently at odds with one another, and nearly every policy risk often presents a significant personal risk for bureaucrats. This occurs because they are often individually, rather than institutionally, held accountable for bad policy outcomes. In this situation, bureaucrats exhibit indecision as they avoid personal and policy risk.

Moreover, in recent times, it has been observed that even policy-risk-free decisions present a significant personal risk to bureaucrats. This could be a routine decision that has near zero probability of a negative policy outcome. This occurs when bureaucrats are pulled up for decisions that are unpopular for extraneous reasons. These could be outcomes that are against political preferences or challenge other vested interests. To avoid experiencing these personal losses, bureaucrats either avoid making policy decisions or take decisions that minimise personal loss. This loss aversion strategy manifests itself when bureaucrats perceive losses more strongly than gains (See Kahneman and Tversky 1979). This is often the case with policy decisions related to matters like procurement, infrastructural development, and financial regulation.

A third scenario is one where there is no information about the probability of potential outcomes and the bureaucrats are uncertain about the policy decision. Here too, the fear of personal loss may cause bureaucrats to strategically avoid decision-making and exhibit a bias toward the status quo. This prevents them from learning about potential policy outcomes for future decisions.

Much of this indecision, therefore, is a form of rational self-preservation, exercised by bureaucrats who are otherwise left unprotected by the institutions that they serve. While the literature on governmental corruption, capacity constraints, and failure to reform is relatively rich, the area of indecision is less explored. In this paper, we closely examine the nature of risk aversion in bureaucratic decision-making in India, why it occurs, what are its implications on service delivery, and how it can be ameliorated.

2. Implications on Decision-making and Delivery

The COVID-19 pandemic has brought to the forefront the importance of agility and quick decision-making in governance. Despite the considerable degree of uncertainty and risk[ii] around the novel Coronavirus, governments had to make rapid policy decisions to avert public health crises and ensure uninterrupted delivery of public goods and services. In many contexts, because time was of the essence, indecision had harmful consequences. For example, several national and regional governments were criticised for delaying airport screening, test kit procurement and, later, the resumption of essential services. Indecision on each of these fronts led to substantial social and economic losses. Therefore, indecision, even in times of limited information, can have severe implications.

First, risk aversion has an impact on the nature of tasks that bureaucrats choose to take up. Bureaucratic fear of loss of control can lead to a singular focus on routine tasks (Diamond, 1985), particularly in generating documentation viz. paper trails justifying their decisions (Hull, 2012 in Heyman, 2012). Bureaucrats select out of certain kinds of tasks, particularly those involving reputational/personal risk. There is a tendency to either deny the existence of the problem, procrastinate over it, pass the file over to another authority, or dismiss the problem as altogether unsolvable.

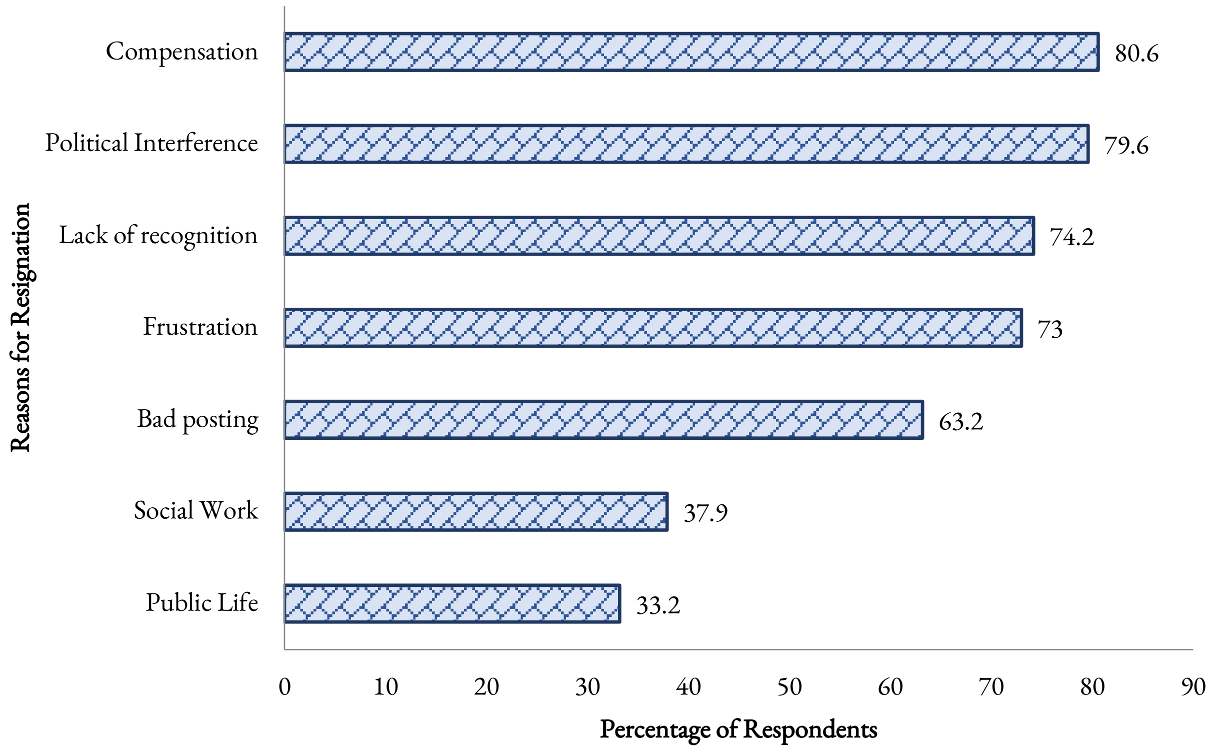
Second, bureaucrats tend to spread out policy risk by needlessly constituting committees for a decision, passing the decision on to a higher authority, or requesting consultation with multiple departments. The proliferation of ministries over the last decades could also be indicative of this. There are 51 Union Ministries as of 2020, having grown three times from the 17 ministries of newly independent India. Even though this may be a positive indication of decentralisation of power, this proliferation hampers decision-making by introducing delays and other coordination failures.

Third, faced with personal or career threats, bureaucrats can either become acquiescent, or are forced to find ways to evade decision making or risk taking. One strategy is to collaborate with other bureaucrats to evade procedures (diversify risk) and another is to rely on non-governmental actors like donors and multilateral agencies to support decisions (transfer risk). When none of these options are viable, bureaucrats find themselves having to resign from the service. In a 2010 survey of civil servants in India, it was found that 33.6% of IAS respondents had considered resigning from the service at least once (DARPG, 2010). Of those who did, 80% mentioned political interference as reason and 73% mentioned frustration (Figure 1).

Fourth, these motivational issues lead to arbitrariness and poor work performance (Gupta, 2012 in Heyman, 2012) which result in project delays, under-utilisation of resources (Choudhry and Mohanty, 2019), inter-stakeholder coordination failures (Ayyangar, 1949), and even shelving of important reforms. Projects that have very specific mandates and targeted actions are more likely to be implemented than those that have broader ambitions and uncertainty in outcomes. An alternative phrasing of this is that bureaucrats work better in mission mode when projects are "temporally concentrated" in that they have fixed timelines (Kapur, 2020), and their outcomes are predictable. In contrast, bureaucratic response to crises or disaster situations, where timelines and outcomes are unclear or uncertain, such as the ongoing pandemic, is often inadequate as bureaucrats are unable to deviate from rules and take necessary risks (Singh, 2020).

Fifth, and most gravely, the quality of public goods and services delivered deteriorates. As mentioned earlier, procurement and payment sanctioning are highly risk-ridden processes for bureaucrats. Risk aversion in these processes directly impacts the quality of public goods and services. For instance, there is a tendency to accept the lowest tenders meeting the minimum specifications (regardless of a bidder's ability to deliver). This is because price-based procurement decisions are easier to justify later, while quality-based procurement decisions are less straightforward to defend post-transaction. The selection of vendors and subsequent payment is a discretionary process, because bureaucrats must make decisions with incomplete information or based on approvals of officers at other departments/levels, yet they are held accountable for outcomes and therefore more exposed to the risk of corruption accusations. As a result, bureaucrats pre-emptively rely on price-based processes, which then compromise on the quality of inputs, that in turn reflect the quality of outputs like roads or irrigation.

Figure 1: Reasons for resignation among IAS officers (Base = 900)



Source: Indian Civil Service Survey (DARPG, 2010)

Even after the procurement process, bureaucrats who are fearful of accusations may choose to continually delay payments in the absence of more evidence of quality. On similar lines, bureaucrats are in the habit of opting for a legal dispute with contractors in case of an unforeseen situation during contract delivery (instead of renegotiating terms), buying from the public sector wherever possible, strict adherence to assessing quality in a quantifiable way, constituting committees with a diverse and large membership, and mechanically applying precedent. As Krishnan and Somanathan (2017) put it, this further embeds the culture of "procedure purity over substantive correctness".

A final latent but important point is how the perception of bureaucrats (consider the connotation of the word bureaucracy) has suffered because of this non-performance. This is also evident in the common representation of bureaucrats in popular media and culture, associating them with inefficiency, red tape, and corruption which in turn reinforces the reputational risks. For instance, a quick analysis of national media finds that "corruption" is the fifth-most associated term with "bureaucracy" in the last two decades[iii].

3. Scope and Methodology of the Study

The risks that bureaucrats face, and the ensuing risk-aversion varies across levels of government, verticals of government, and within services. Anecdotally, we learnt that bureaucrats at higher levels of decision-making (secretarial level), bureaucrats in ministries with heavy procurement responsibility (infrastructural ministries), and bureaucrats within services with regulatory responsibilities (for e.g., corporate governance) are more likely to be victims to risk aversion than others. In this paper, we choose to focus on the Indian Administrative Service (IAS) because it is a cadre that staffs officers across these functions.

As we can see in Table 1 below, IAS occupies a significant proportion of secretarial positions, especially at the Joint Secretarial level.

Table 1: Distribution of IAS officers across levels of service in 2012

Civil Service Posting	Secretary Level	Additional Secretary Level
IAS	81	100
IPS	18	10
IFS	3	
Indian Postal Service	1	
Railway Service	1	
Indian Legal Service	3	
Indian Audit and accounts service		1
Indian Defence service		2
Indian Revenue Service		3
Central Secretariat Service		1
Others	6	2
Total	113	119
% IAS	71.7%	84.0%

Source: Krishnan and Somanathan, 2017

IAS officers are also exposed to a considerable number of legal threats. As we have discussed in Section 2.1.1 (below), as many as 625 complaints were filed against IAS officers in 2018. Often, such complaints and charges are not disposed of within the same year, which means that officers are likely to carry these charges over multiple years, regardless of their culpability. As a result, these charges are likely to have adverse reputational outcomes even if not legal ones.

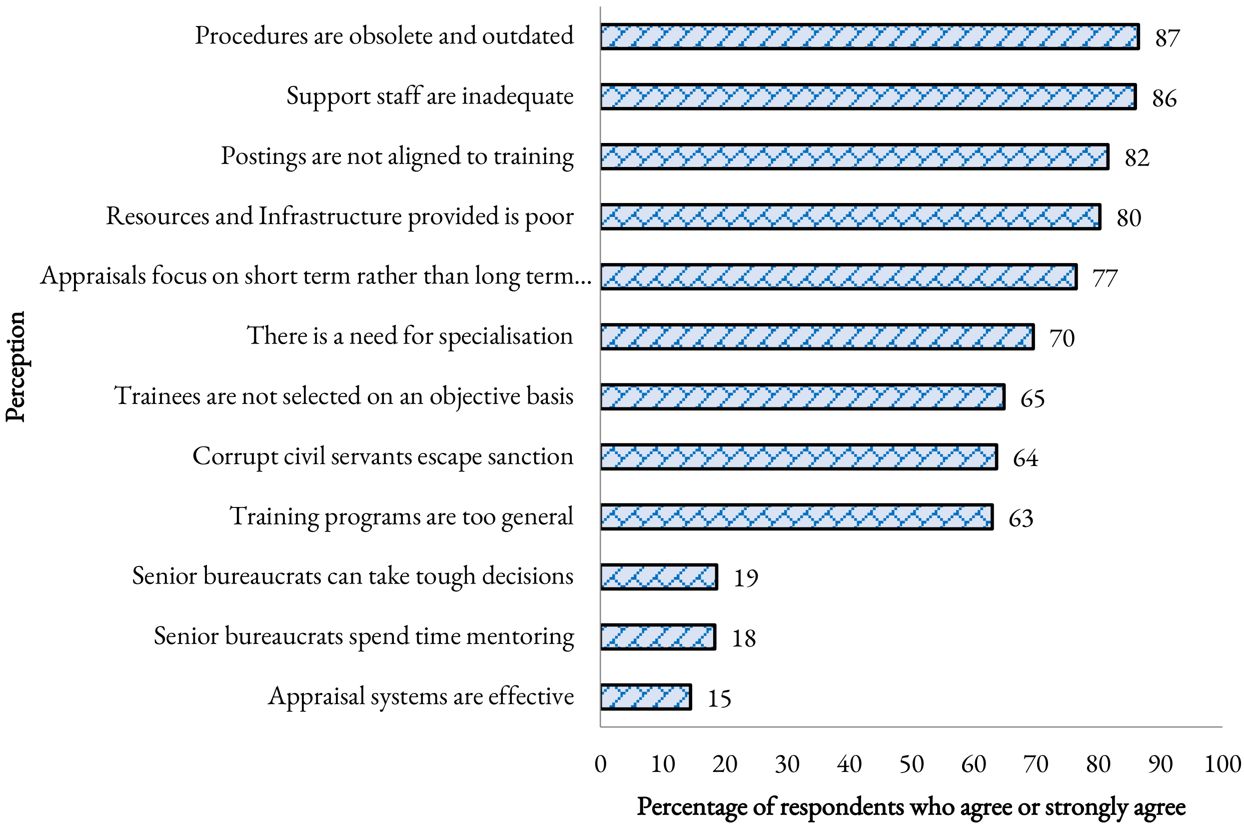
The research for this working paper included a review of interdisciplinary literature on bureaucracy and policy decisions, combined with semi-structured interviews. We interviewed current and ex-bureaucrats from India and other Asian and African countries, political scientists, and other policy researchers. Through the interviews, we were able to understand the various types of bureaucratic risks, behaviour under risk and outcomes of this behaviour.

We also conducted a document analysis of several historical and contemporary administrative and legal documents, including committee reports, acts and rules, annual reports, and other government publications. This documentation helped validate the credibility of the legal and administrative threats that bureaucrats face. Further, we examined personal/reported experiences of bureaucrats' experiences such as blogs, autobiographical books, news reports and other media, to understand individual experiences of succumbing to or overcoming risk aversion.

II The Causes of Bureaucratic Risk Aversion

Despite the considerable decision-making power at senior levels of the service described above, there are several factors that hinder and constrain decision-making. In the following sections, we delve into the organisational design, institutional norms, political interference, and other factors highlighted above that prevent decision-making and induce risk aversion among bureaucrats.

Figure 2: Selected grievances of Indian civil servants (NB: Base differs for each grievance)



Source: Indian Civil Services Survey (DARPG, 2010)

Figure 2 above represents selected grievances of civil servants from the 2010 Civil Service Survey (DARPG, 2010)[iv], which describes several issues that we will be covering in the following sections.

1. Organisational Design

Policy discourse has analysed the state as an institution, but discussion of the state as an organisation has been limited (Kapur, 2020). In this section, we aim to do this by examining the processes and procedures governing recruitment, monitoring, training and performance appraisal, and access to resources. We discuss how organisational design failures lead to indecision and risk aversion.

1.1. Intimidation through over-monitoring

In a democratic framework, bureaucrats are unelected officials, yet wield regulatory power; thus, it is essential to have mechanisms for oversight of their effectiveness and efficiency (Gruber, 1987) (Apaza, 2008). However, sometimes these monitoring mechanisms become tools for exercising control over the bureaucracy, which ultimately undermines their ability to do their job. Misuse of this monitoring system can also lead to adverse consequences for bureaucratic performance by becoming tools of intimidation.

Baseless Investigations

60% of Indian IAS officers feel that their performance was affected by baseless complaints and investigations (DARPG, 2010). Table 2 below summarises the types and number of complaints pending or filed against IAS and other senior officers each year.

In many of these instances, the cases or complaints are eventually dismissed, but the process itself is the punishment: several of these proceedings extend over years, having significant reputational consequences for the accused bureaucrat.

Scrutiny of Deliberations

Monitoring compliance with rules through (neutral) mechanisms such as audits and right to information is an integral part of governance and a key feature in the checks and balances on executive functioning and public service delivery. Despite that, research has shown that such features can become restrictive and conversely, engender opacity (Gerardino et al. 2017). For example, with the introduction of the Right to Information Act, 2005 (RTI Act), an unintended effect has been that the deliberative component of the bureaucratic process has come under scrutiny. While the aim of the RTI Act was and is to foster transparency in governance, its absorption into the bureaucratic work culture has followed a different path. As a result, bureaucrats now stay away from tendering frank advice (Krishnan and Somanathan, 2017).

Table 2: Complaints and Investigations against IAS officers in 2018

2018-19	Number
Complaints Received and Processed (IAS)	625
Disposed	596
Corruption Charges (IAS)	5
Sanctions	4
Ruled out	1
Privilege notices (IAS)	12
Disposed	2
Complaints by MPs (IAS)	6
Disposed	2
Administrative Enquiries Final Orders (Group A)	9
Suspension/Deemed Suspension	2
Prosecution sanctions	1

Source: DOPT Annual Report (Government of India 2019)

Penal Transfers

Other causes of poor performance are disruptive transfers and arbitrary demotions through the ability to upgrade and downgrade posts (Krishnan and Somanathan, 2017). The authors contend that arbitrary transfers have led to short tenures in each post, which has in turn diminished effectiveness. Every incumbent is still on a learning curve in nearly every post when they are being transferred, which prevents specialisation (discussed in detail in Section 2.1.5). Iyer and Mani (2012) present evidence of the use of transfers as political instruments and find that the average probability of transfer for an officer each year is 53% (data from 1980 - 2004).

Frequently-transferred officials may not have adequate formal appraisals, which affects their ability to get empanelled for promotions to senior postings. Looking at the extent to which civil servants are transferred after an election that has resulted in a change in government, India does worse than all parliamentary systems other than Italy, even at the central level (Krishnan and Somanathan 2017). The 2nd Administrative Reforms Committee (ARC) recommended abolishing the system of penal transfers as it is demoralising and acts as a drain on the exchequer.

The threat of transfers and investigations make bureaucrats avoid decisions or take decisions in a risk-averse manner. (Rasul, et al. 2017) find that *over-monitoring* is a cause for delay and failure in bureaucracies. Interestingly, in certain contexts, heightening monitoring and enforcement is also not necessarily successful in addressing corruption as the agents being monitored may simply change their method of corruption (Yang 2005) or displace their corruption to areas that are not monitored (Lichand, Fernandes 2019). For example (Lichand, Fernandes 2019) who study audits on municipal contracts in Brazil, find that vendors who *over-invoice* shift to work with municipalities who are not audited. As they put it, "the focus of the justice system on administrative and criminal penalties to bureaucrats, rather than on criminal penalties to vendors, and that of public opinion on corruption, instead of on the public service provision, seem to have thrown the baby out with the bathwater."

1.2. Lack of Autonomy and Discretion

Apart from legal over-monitoring, bureaucrats are often also prone to administrative over-monitoring, in that their decision-making is often subject to approval and authorisation by their superiors. This lack of autonomy not only prevents risk-taking but also disincentivises risk-free decisions. Giving bureaucrats discretion over their own decisions has multiple implications for decision-making. Autonomy increases the speed and efficiency of project completion. For example, evidence from West Africa shows that a one standard deviation increase in bureaucratic autonomy increases project completion rates by 18% in the Nigerian civil service (Rogger and Rasul, 2016) and 28% in the Ghanaian bureaucratic context (Rasul et al., 2018). In Ghana, the authors also investigated corruption, and found little evidence of autonomy having a corrupting effect.

Ineffective Supervision

One mechanism for this increased efficiency is the removal of undue influence or delays by senior monitors. In a study of procurement officers in Punjab, Pakistan, it was found that shifting decision-making power (on audit documentation) from a senior monitor to the implementing procurement officer improves procurement decisions (Bandiera et al. 2020)[v]. The authors found that increasing the autonomy of the implementing officer, lowers prices because they are likely to spend more time on procurement unlike the monitors who could delay decision making to the end of the year.

Discretion, Choice and Quality

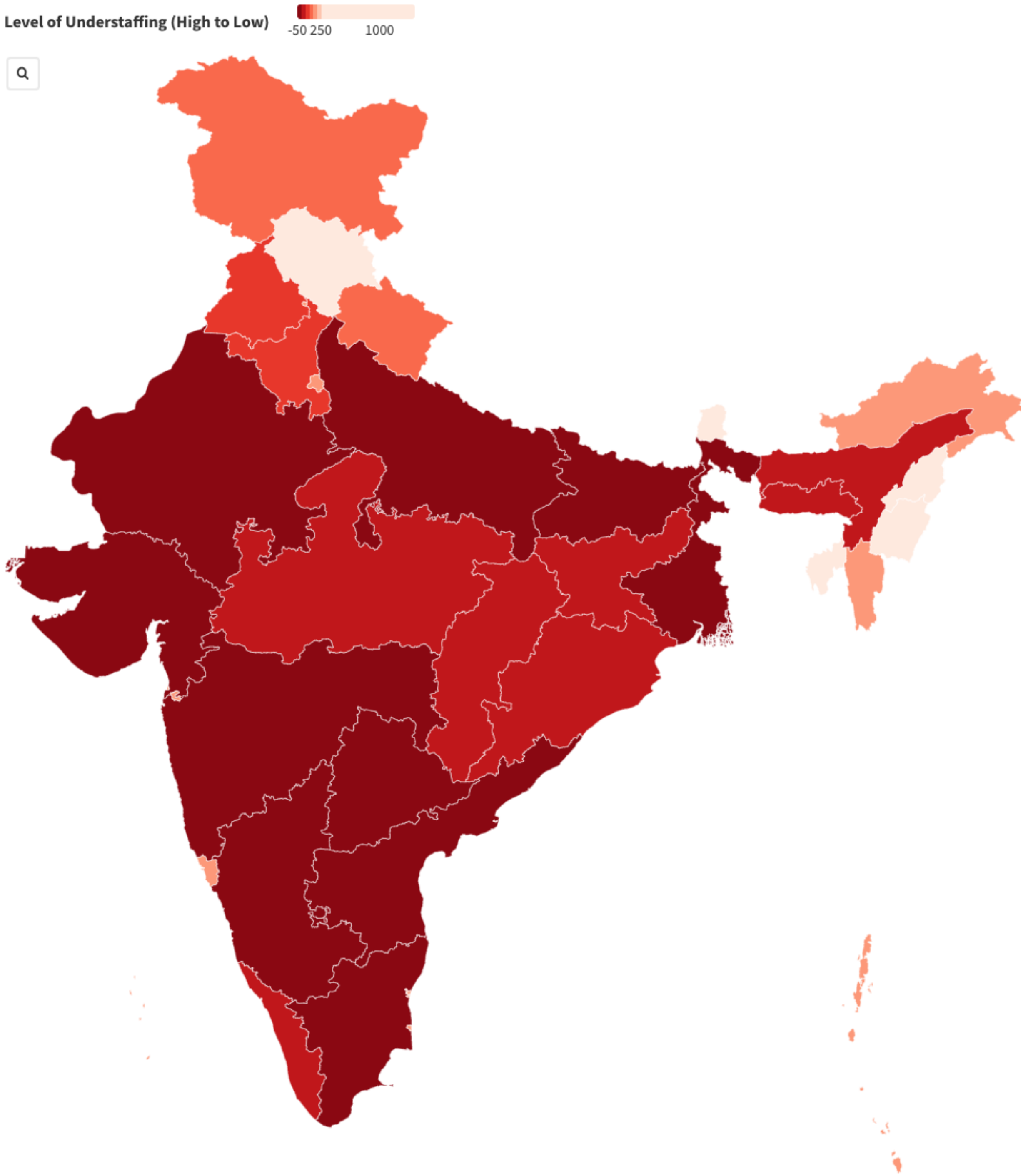
A second mechanism is the increased discretion exercised by bureaucrats to make better choices such as while choosing contractors/suppliers. Studying bureaucratic discretion in procurement decisions in Italy, Coviello et al. (2018) found that even though discretionary procurement decisions led to repeat purchases from past firms (indicative of favouritism), the decisions themselves were associated with lower work duration and administrative costs, and improved quality and quantity of firms. "Discretion may then help, rather than harm, as it allows incomplete contracts to be complemented with dynamic informal governance mechanisms" (Coviello et al., 2018). However, this trade-off between efficiency and leakage is sensitive to the conditions of discretion and auction design. In contrast, in the Hungarian context, discretionary procurement decisions were strategically exercised by bureaucrats who were politically connected and therefore procurement outcomes suffered, and winning firms were less productive and more expensive (Szucs, 2020). Therefore, considerable thought needs to go into the design of autonomy and task assignment and the incentive compatibility of this design. In the Indian context, the lowest cost or L1 procurement is the least discretionary form of procurement as it gives bureaucrats a clear quantitative decision rule for allocating a contract. However, such decisions are then bereft of any subjective or even objective quality considerations important for ultimate service delivery.

1.3. Bureaucratic Overload and Inability to Specialise

Another salient reason for decision paralysis in the Indian bureaucracy is administrative overload and the inability to specialise.

Figure 3 below indicates the level of understaffing in some Indian states.

Figure 3: State IAS Representation against Population



Source: (Krishnan and Somanathan, 2017)

Rate of understaffing is calculated by taking the percentage difference between the state's share of the IAS cadre and the state's share of national population. The excess or shortfall is determined by calculating the difference between the state's cadre as a proportion of total IAS strength and the state's share of population of India (2011), divided by the state's cadre as a proportion of total IAS strength. For example, Uttar Pradesh's share of the population of India in 2011 was 16.49% and the IAS cadre strength in 2012 was 592. Uttar Pradesh's cadre strength as a proportion of total IAS strength was

9.6%. Therefore, the shortfall as a proportion of the expected share was 42%. Conversely, Sikkim's share of the population of India in 2011 was 0.05% and the IAS cadre strength in 2012 was 48. Sikkim's cadre strength as a proportion of total IAS strength was 0.8%. Therefore, the excess as a proportion of the expected share was 1,453%. Similarly, Kerala's share of the population of India in 2011 was 2.76% and the IAS cadre strength in 2012 was 214. Kerala's cadre strength as a proportion of total IAS strength was 3.5%. Therefore, the excess as a proportion of the expected share was 26%.

Sub-optimal Time Use

Dasgupta and Kapur (2017) led a study where block development officers (BDOs)[vi] were asked to record their time use across the following tasks: filing forms, managing office and staff, planning and budgeting regarding schemes, field visits, handling individual complaints and requests from citizens, local politicians or legislators, unrelated duties, or other. The authors find that these officials are required to multi-task excessively, losing focus on managerial activities, impacting project implementation and related outcomes. The authors find that BDOs can allocate, on average, only 22% of their time on planning and budgeting for programs.

Apart from managerial activities, another set of functions that have a bearing on public service delivery are coordination activities. Kalaj et al. (2020) study time-use among bureaucrats in Ethiopia and find that civil servants that spend more time in coordination activities (meetings and interfacing with clients) work in organisations with significantly better service delivery outcomes.

Lack of Continuity and Specialisation

Closely related to the problem of suboptimal time use is the problem of specialisation and competence. One of the adverse outcomes of frequent transfers is the inability for bureaucrats to specialise (Khosla and Vaishnav, 2016). However, the relationship between specialisation and service delivery, especially by IAS officers, is not straightforward. On one hand, the allure of the IAS is precisely that it is a service for generalists, giving officers access to multiple levels and departments of government. "Make the IAS officer a specialist and he is like anyone else" (Ghate, 1998). The officers are expected to have a certain number of sector-agnostic qualities like leadership, team management, coordination, problem-solving or, as (Agarwal and Somanathan, 2005) put it, [to be] "intelligent and informed generalists".

On the other hand, the reduction of the service into a series of "stints" implies a lack of continuity for the bureaucrat, and thus lack of accountability for service delivery. On-the-job learning opportunities also shrink, and career advancement suffers. Ferguson and Hasan (2013) show that specialisation aids career advancement for bureaucrats in India at all career stages. For early-stage bureaucrats, specialisation serves as a positive signal of ability, while for senior bureaucrats, it aids advancement through the actual ability and skills gained. Specialisation and the development of a focus are important from the perspective of decision-making because expertise provides bureaucrats with the confidence to take risks and manage their consequences.

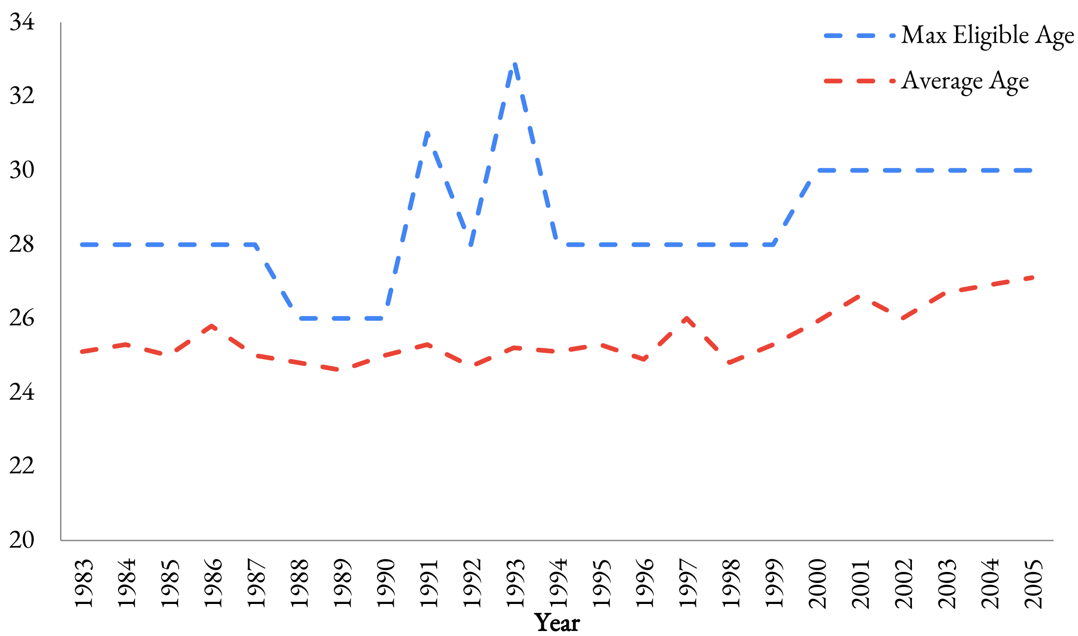
1.4. Candidate Selection and Recruitment

Reforming Selection Criteria

Another factor worth examining in the context of competence for decision-making is the selection and recruitment process of IAS officers. Does the current recruitment process elicit the application of, and subsequently select, candidates with entrepreneurial qualities? At present most discussion about reform to recruitment processes is focussed on quantitative criteria like number of attempts, age limits, selection criteria, and examination design. This is because successful candidates are getting older, are less likely to hold a postgraduate degree, and take an average of four attempts to pass the entrance exam (Vaishnav and Khosla, 2016).

Addressing these challenges, the 10th report of the Second Administrative Reforms Commission (2nd ARC) recommended reduction in maximum permissible age for appearing in the civil service examination (to 25 for general candidates) and the maximum permissible attempts (to three for general candidates) to address the increasing average age of entrants (See Figure 4) and the number of prior attempts.

Figure 4: Maximum Eligible Age and Average General Age of IAS Candidates



Source: ARC, 2008

Personality, Talent and Motivation

While these indicators are reflective of the skill and talent of candidates, the discussion on recruitment reforms often leaves out selection based on qualitative criteria. Candidate personality is particularly important in the realm of improving decision-making and delivery. Are Indian bureaucrats risk averse by selection?

Behavioural research, such as by Hanna and Wang (2017), provides some evidence on how current advertising and positioning of government jobs fail to attract candidates with desirable qualities. They find a correlation between the propensity for dishonesty and preference for government service in India. Interestingly, even after screening for ability, the pool of candidates does not improve on measures of dishonesty.

What motivates candidates to apply to the civil service is also an indicative consideration. Are they motivated by career progression (career oriented) or by social impact (prosocial)? Studying health workers in Zambia, Ashraf et al. (2020) found that when advertising for civil service recruitment, respondents to career-oriented advertisements are likely to be more talented and more effective at each step of service delivery as opposed to prosocial advertisements [vii]. Therefore, a combination of attracting career-oriented applicants and screening by ability leads to the selection of the most objectively worthy candidates. This finding has been in contrast with previous research which made the case for selecting candidates precisely for their prosocial motivation [health inspectors in Pakistan (Callen et al., 2015) and graduates in Indonesia (Banuri and Keefer, 2013)], indicating that this is a context- and role-specific dynamic, worth investigating further in the Indian administrative context.

1.5. Inadequate Training and Mentorship

IAS officers initially complete a year of training at the Lal Bahadur Shastri National Administrative Academy (LBSNAA), which includes a foundational course and Phase 1 training. This is followed by a year of district-level on-field training, which is then followed by Phase 2 training. From 2007 onwards, a comprehensive system of mid-career training was introduced, whereby officers need to complete 8 weeks of training between their 7th and 9th year, 8 weeks between their 14th and 16th year, and 4 weeks between their 26th and 28th year of service. This training is necessary for promotion to the next level. There is also a plethora of optional training, including options for foreign training. We know from prior research that higher marks on training is a predictor of on-the-job performance (Bertrand et. al, 2015). Data has shown that there are clear performance benefits for IAS officers who invest in training (Khosla and Vaishav, 2016). But how can bureaucrats be trained to become better decision-makers?

Lack of leadership training

A repeated issue with bureaucratic training programmes is that the training focuses on lower-order, typically task-based assignments, and doesn't consider the need for training that gives officers domain expertise or skill development (ARC, 2008). It also does not focus on attitudinal and behavioural skills.

Second, there is inadequate training on developing leadership skills and team-building, which are essential to the functioning of a complex bureaucracy. Low appeal amongst the senior officers and short-term versus long-term trade-offs of such training result in a lot of top officers not undertaking such training (ARC, 2008). In this respect, the Indian bureaucracy can learn a lot from the example of Singapore and Malaysia. In Singapore, bureaucrats receive consistent leadership training and development. They are taught to understand challenges and to break down complex problems into smaller parts. Additionally, there is an entitlement of 100 hours per year of training available to the bureaucrats. In Malaysia, yearly training is a component for performance evaluation and career progression. Other such learnings from international contexts are described in detail in Section 3.1.

Third, bureaucrats are often trained to be policy implementers rather than policy makers. They are experts at execution, even under constrained situations, but not necessarily at big picture ideation and experimentation. This may be another factor leading to risk aversion when making decisions.

Access to Mentorship

As mentioned earlier, a significant grievance (highlighted in DARPG, 2010) has been the lack of mentorship by senior civil servants for junior officers. Mentorship is potentially a channel that can plug gaps in conventional training, and through which bureaucrats can learn about qualitative aspects of the bureaucracy, particularly leadership, team management, problem-solving and risk-taking.

Interestingly, some observers of the civil service believe that it is precisely this lack of contact that isolates district and junior officers from the risk aversion that manifests at higher levels, because of which they can make decisions, delegate, and have trust in the decision-making apparatus. This is another way of saying that current mentorship could propagate a culture of risk-aversion, because of senior bureaucrats' lived experience in dealing with investigations and charges.

1.6. Career Incentives and Performance Pay

As discussed earlier, while intrinsic motivation in the public sector may be higher than in the private sector (Andersen and Seren 2012; Cowley, 2013; Bellé, 2012), the implication of this for bureaucratic decision-making and effectiveness is not straightforward, especially in the absence of career incentives.

Rigid Progression Rules

Promotion in the IAS is tenure-based, occurring at the intervals of 4, 9, 13, 16, 25 and 30 years of service. While at the junior levels, officers usually get promoted soon after they hit these tenure durations; at the senior levels, there is a discrepancy between the sanctioned and actual time, as promotions are often dependent on vacancies and performance reviews (Bertrand et al. 2019). After 16 years of service, officers are also eligible to be posted to the central government, through a process called empanelment, which is considered highly prestigious. However, empanelment isn't a transparent process, and its control often lies in the hands of politicians (Krishnan and Somanathan, 2017).

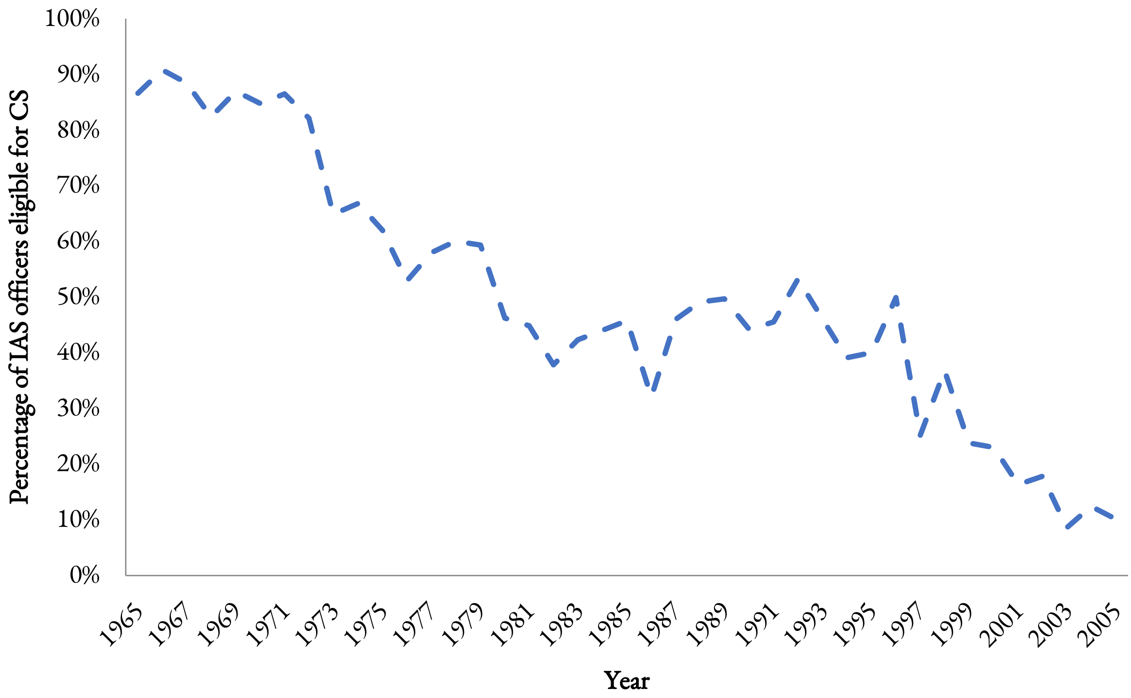
Bertrand et al. (2015) have shown that these fixed progression rules are particularly demotivational to officers who enter the service at an older age. The higher average age of entrants into the IAS has significantly reduced the eligibility of officers to secure higher-level positions as shown in Figure 5 (ARC, 2008). A little over 10% of officers who entered the service in 2005 are eligible to be promoted to the position of chief secretary.

Lack of Career Planning

In addition to career progression rules, the annual performance review process also has many flaws. Officers tend to be judged on adherence to process instead of outcomes, and as a result, do not have a stake in producing good results. Further, the focus of the performance review tends to be on numerical grades and evaluation for past performance, instead of a holistic approach that includes setting goals and career planning (ARC, 2008). It also occurs at a fixed time every year instead of being an ongoing process. The performance review process takes place between an officer and their superior, and there are no departmental goals or alignment between officers in the same department, let alone inter-departmental cooperation.

Because of its ineffectiveness in affecting personal or career growth, officers engage with Annual Performance Appraisal Report (APAR) minimally. Reviews are often filled post the assessment period, and may be done merely to provide a stamp of approval for promotion. Goals are sometimes written retrospectively, i.e. once tasks are completed, bureaucrats often have the power to influence the data on which they are assessed. Further, there is a perception among officers that promotions are secured unfairly. In the 2010 DARPG survey, 78% of respondents believed that some or most officers used influence to gain sought-after positions. Only 24% believed that these postings were merit-based (Khosla and Vaishnav, 2016).

Figure 5: Percentage of IAS officers eligible for chief-secretary



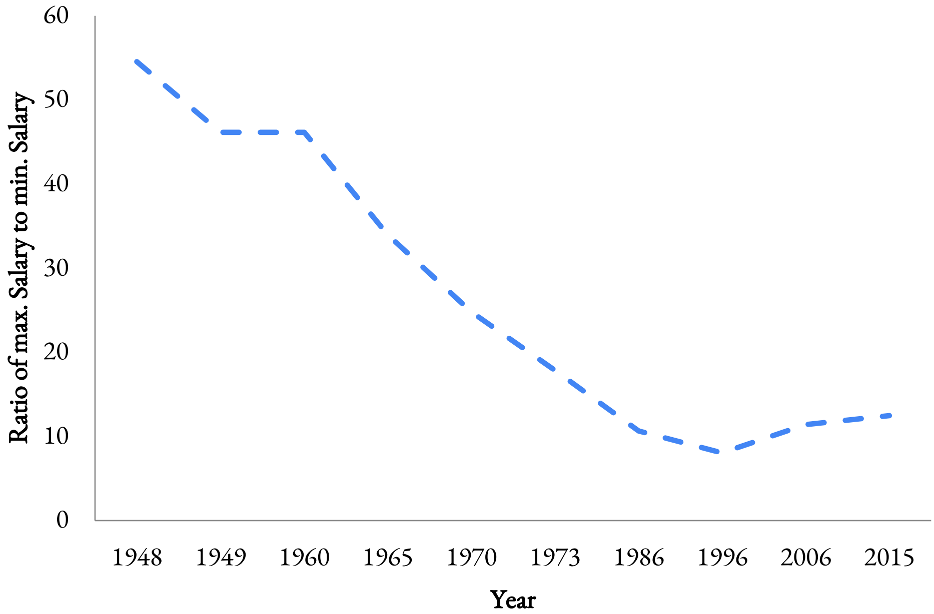
Source: Government of India 2008

Pay Compression

Finally, there is also significant pay compression in government services. Lower-level bureaucrats are overpaid and top-tier ones, including those of the IAS, are significantly underpaid relative to what they could make in the private sector. As shown in Figure 6, the ratio of the maximum wage to the minimum wage has fallen from 54.5 post-independence to 12.50 in 2015. Higher wages attract more able applicants (Dal Bó et al., 2013) and the lack of financial incentives causes self-selection in qualified applicants who would rather work in the private sector. Another issue with low salaries is that it could encourage officers to make money in other ways while in office (Khosla and Vaishnav, 2016).

In conclusion, in the absence of appropriate career and monetary incentives to motivate them, bureaucrats are likely to take a conservative, self-preservational approach to decision-making, and to avoid risks.

Figure 6: Pay compression - Ratio of max. Salary to min. Salary over time



Source: ARC 2008

2. Institutional Norms and Culture

The Indian bureaucracy has a 150-year-old colonial legacy, and the institutional norms and culture that have evolved from this legacy play a significant role in current risk-aversion. This is because bureaucratic norms tend to guide how state capacity develops (Mangla 2015) and what is documented as "official" can have a significant impact on culture (Dery 1996). Routine behaviour leads to the desire for maintaining the status quo, reinforcing isolationist tendencies and defensive attitudes (Diamond 1985).

2.1. Complex rules and Administrative Inefficiency

Remote control administration

The pre-colonial Indian Civil Service (ICS) was a heavily centralised institution, designed for a small group of officers to control a vast country of over 300 million people (Merchant, 2012). This applied not only to the organisational structure but also to decision-making. Officers made decisions based on adherence to rules rather than outcomes. This legacy of centralised decision making and rule-based administration from a distance had a deleterious effect on the risk-taking ability of officers. Rule-based administration reduces, or even eliminates, all discretionary powers of the officer. As a result, decision-making suffers, and many proposals are lost or rejected without adequate consideration.

Contradictory Rules

In an ideal world all these laws, rules, and guidelines would be well-defined, in congruence with one another, and would have clearly outlined incentives/disincentives. In the context of the Indian bureaucracy, this is often not the case. Bureaucrats face difficulty in taking prompt and appropriate action as there are laws that contradict each other, and in some cases, there are laws formed in such a manner that the incentives or deterrents are either too low or too high. This produces administrative inefficiency in the form of delays, coordination failures, or simple avoidance.

Consider the following excerpt from the RTI Act:

> "An Act to provide for setting out the practical regime of right to information for citizens to secure access to information under control of public authority in order to promote transparency and accountability in the working of any public authority, ..."
>
> — Right To Information Act, 2005

Given that the RTI Act was enacted to provide citizens with access to information in the control of any public authority, consider the following features of certain other Acts that contradict the spirit of the RTI Act and hinder its implementation:

- The Official Secrets Act, 1923 does not define 'secret' and makes it an offence for public officials to communicate any information to an unauthorised person. Since what is secret is not defined, this becomes a catch-all phrase to restrict the flow of information.
- Sections 123 and 124 of the Indian Evidence Act, 1872 restrict a government servant from citing evidence from unpublished documents without the permission of the head of the department. They are not allowed to disclose any information that may cause harm to the public interest.
- Paragraphs 116 and 118 of the Manual of Office Procedures prohibit officials from communicating information in any form to anybody without a general or specific order.
- There are also state-specific laws that restrict public servants from revealing official documents or parts of it to any person.

These features of multiple laws on the same subject create confusion in implementation, ambiguity, and needless litigation regardless of implied repeal (ARC, 2008).

2.2. Accountability to Process rather than Outcomes

Paperwork forms an essential part of the daily work within bureaucracy. It renders the state legible (Scott, 1998) and functions as a regulatory instrument (Hull, 2003). It also helps legitimise the idea of 'the state' as it materialises and gains power through forms, documents and signatures (Scott, 1998). Hull (2003) notes that files, in particular, are instrumental in forming a "ritual construction of collective bureaucratic authority and agents [which] protects individuals and allows particular projects to be collectivised." Building on the extensive usage of written procedures of the Mughal empire, the British administration, which was deeply distrustful of the native Indian functionaries, created a "surveillance and control" regime using papers, files, and procedures (Hull, 2003). The paper-trail-based method of administration remains entrenched in the organisational norms of the Indian bureaucracy. While there has been a shift from being a colonial state with the primary functions of taxation and public order to a welfare state, procedurally the bureaucracy has not been wholly recast. As Ehmke (2012) notes, the post-independence federal structure of India, with a strong centre, is partly a legacy of the late colonial Government of India Act of 1935. The administrative structure of the post-independence IAS also bears a large colonial legacy from the British colonial ICS; "[t]he ICS maintained law and order in the British ruled territories of India and served as its 'steel frame'… Its successor, IAS, was not readily equipped and devoted to the tasks of socio-economic planning and development required by the new government. This meant that a key institution for the implementation of any change perpetuated ideas of the old regime." (Ehmke, 2012). As a result, the federal organisation of India and the IAS continue to carry colonial legacies.

Accounting-based Accountability

The clamour to keep the bureaucrats accountable to citizens, with a view to 'discipline' the unruly, has further hampered the organisation's culture. The task of fixing accountability has led to top-down, rule-based, process-driven accounting systems, leading to "accounting-based accountability" [viii] (Honig and Pritchett, 2019). Invariably, this has had a far-reaching impact on discretion, with a tendency to put the process front and centre, ahead of outcomes. It has proved to be detrimental to bureaucratic decision-making, becoming a roadblock to the 'compliant' rather than penalising the 'non-compliant'. Bureaucrats across levels of responsibility describe themselves as "cogs" in the machine, responding to orders rather than citizen needs, breeding a culture of "order followers" rather than "active agents of change" (Aiyar et al., 2015; Aiyar et al., 2020).

In discussing the limits to accounting-based accountability in education (and far beyond), Honig and Pritchett (2019) highlight its pernicious effect on welfare. They caution against managing civil servants primarily or exclusively via "accounting-based accountability" as it could "demotivate those in the system and spur departure of the differentially positively motivated". The authors go on to say that "accounting-based accountability can be a kind of self-fulfilling prophecy, creating the problem it is meant to solve".

Apart from breeding deep-seated distrust in the system, it fosters "legalistic" norms, rather than a more conducive "deliberative" approach to decision-making within the bureaucracy. "Legalism" promotes rule-following and deference to a hierarchy, often at the cost of public service delivery, while a "deliberative" model of bureaucracy encourages outcome orientation (Mangala, 2015). Since norms are unwritten codes of conduct, any push to reform the bureaucracy and the state needs to alter the norms and organisational culture from within (Aiyar, 2018).

In Box 1 below, we summarise all the central rules and regulations and some state laws that govern the IAS, revealing the extent of micromanagement of the service and loss of discretion.

Box 1: List of rules/regulations that govern IAS (non-exhaustive)

Central Acts, Rules and Regulations

1. Indian Evidence Act, Section 123 and 124, 1872
2. Official Secrets Act, 1923
3. Delhi Special Police Establishment Act, 1946
4. Constitution of India, 1950
5. All India Service Act, 1951
6. All India Services (Compensatory Allowance) Rules, 1954
7. All India Services (Medical Attendance) Rules, 1954
8. All India Services (Travelling Allowance) Rules, 1954
9. IAS (Recruitment) Rules, 1954
10. Indian Administrative Service (Cadre) Rules, 1954
11. Indian Administrative Service (Pay) Rules, 1954
12. Indian Administrative Service (Probation) Rules, 1954
13. Indian Administrative Service (Recruitment) Rules, 1954
14. All India Services (Leave) Rules, 1955
15. All India Services (Provident Fund) Rules, 1955
16. Indian Administrative Service (Recruitment by Competitive Examination) Regulation, 1955
17. Indian Administrative Service (Appointment by Promotion) Regulations, 1955
18. Indian Administrative Service (Probationer Final Exam.) Regulations, 1955
19. All India Services (Special Disability Leave) Regulations, 1957
20. All India Services (Death-Cum-Retirement Benefits) Rules, 1958
21. All India Services (Remittances into and Payments from PF and family pension Funds) Rules, 1958
22. All India Services (Commutation of Pension) Regulations, 1959
23. All India Services (Conditions of Service-Residuary Matters) Rules, 1960
24. All India Services (Study Leave) Regulations, 1960
25. Indian Administrative Service (Fixation of Cadre Strength) Regulations, 1966
26. All India Services (Conduct) Rules, 1968
27. All India Services (Discipline and Appeal) Rules, 1969
28. All India Services (Confidential Roll) Rules, 1970
29. All India Services (Dearness Allowance) Rules, 1972
30. All India Services (Joint Cadre) Rules, 1972
31. Departmental Inquiries (Enforcement of Attendance of witnesses and Production of Documents) Act, 1972
32. Former Secretary of State Service Officers (Conditions of Service) Act, 1972
33. All India Services (Leave Travel Concession) Rules, 1975
34. All India Services Indemnity Act, 1975
35. All India Services (House Rent Allowance) Rules, 1977
36. All India Services (House Building Advanced) Rules, 1978
37. All India Services (Group Insurance) Rules, 1981
38. Administrative Tribunals Act, 1985
39. Indian Administrative Service (Regulation of Seniority Rules, 1987
40. Prevention of Corruption Act, 1988
41. Compilation of Fundamental Rules and Supplementary Rules (Part-I), 1989
42. Revised Scheme for Redeployment of Surplus Staff, 1989
43. Indian Administrative Service (Appointment by Selection) Regulations, 1997
44. All India Services (Prevention of Sexual Harassment) Regulations, 1998
45. IAS Promotion Guidelines, 2000
46. Compendium of Welfare Programs Instruction, 2001
47. Central Vigilance Commission Act, 2003
48. Central Vigilance Commission Amendment Act, 2004
49. General Financial Rules, 2005
50. Right to Information Act, 2005
51. AIS (Performance Appraisal Report) Rules, 2007
52. All India Services (Performance Appraisal Report) Rules, 2007
53. Central Vigilance Commission (Staff) Rules, 2007
54. Draft Public Services Bill, 2007
55. IAS (PAY) Rules, 2007
56. Administrative Instructions on Departmental Canteens in Government Officers, 2008
57. IAS (Pay) 2nd Amendment Rules, 2008
58. Civil Services Performance Standards and Accountability Bill, 2010
59. Public Interest Disclosure and Protection to Persons Making Disclosure Bill, 2010
60. Citizen's Charter and Grievance Redressal Bill 2011, 2011
61. Right to Public Service Act, 2011
62. Right to Information Rules, 2012
63. Lokpal and Lokayuktas Act, 2013
64. Delhi Special Police Establishment (Amendment) Act, 2014
65. Whistleblowers Protection Act, 2014
66. Manual of Office Procedure, 2015
67. Central Vigilance Commission (Staff) Amendment Rules, 2017
68. Lokpal (Complaint) Rules, 2020
69. Extracts of provisions in F.R. 56, n.d.
70. Fundamental Rules (FR 11 and FR 52, 53 and 54), n.d.
71. Public Servants Inquiries Act, n.d.

State level Acts, Rules and Regulations

1. Bihar Reorganization Act, 2000
2. Madhya Pradesh Reorganization Act, 2000
3. Uttar Pradesh Reorganization Act, 2000
4. Maharashtra Government Servants Regulations of Transfers and Prevention of Delay in Discharge of Official Duties Act, 2005
5. Madhya Pradesh Lok Sewaon Ke Pradan Ki Guarantee Adhiniyam, 2010
6. Bihar Lok sewaon ka adhikar Adhiniyam, 2011
7. Chhattisgarh Lok Seva Guarantee Bill, 2011
8. Delhi (Right of Citizen to Time Bound Delivery of Services) Act, 2011
9. Himachal Pradesh Public Services Guarantee Act, 2011
10. Jammu and Kashmir Public Services Guarantee Act, 2011
11. Janhit Guarantee Act, 2011
12. Karnataka (Right Of Citizens to Time Bound Delivery Of Services) Bill, 2011
13. Rajasthan Public Service Guarantee Act, 2011
14. Right to Service Act, 2011
15. Uttarakhand Right to Service Act, 2011
16. Assam Right to Public Services Act, 2012
17. Kerala State Right to Service Act, 2012
18. Odisha Right to Public Services Act, 2012
19. Goa (Right to Time-Bound Delivery of Public Services) Act, 2013
20. Gujarat (Right of Citizens to Public Services) Bill, 2013
21. West Bengal Right to Public Services Bill, 2013
22. Haryana Right to Service Act, 2014
23. Maharashtra Right to Public Services Ordinance, 2015

2.3. Coordination Failures

Lack of Team-orientation

A hierarchical and pyramidal structure with multiple levels, both salient features of a Weberian bureaucracy, characterise the Indian state well. Several countries have attempted to 'flatten the structure', as well as infuse team orientation and organisational goals, to break silos and respond to complex needs of governance (2nd ARC, 2008). The thirteenth report of the 2nd ARC noted that the multiple levels within government, along with division of task into separate units, has led to the creation of silos within each department and emphasised the need for interdisciplinary work teams for dealing with cross-cutting issues.

The role of intrinsic motivation, team composition, distribution of bureaucracy (across different functional lines and tiers of local, state, and federal government), and coordination, both horizontally and vertically, play a critical role in the organisational design and effectiveness of the bureaucracy (Kapur, 2020). The culture and practices within bureaucracy need to be reoriented towards collaboration to achieve the common organisational target.

Intra-governmental coordination

Given the complexity of public administration, the ability to coordinate different functions is key to achieving goals. Ethnographic studies suggest that "fragmentation and arbitrariness in bureaucratic work" create incoherence within the government, and lead to poor service delivery despite genuine commitment (Heyman, 2012). The fragmented structure translates into coordination failures within and between departments. Therefore, an important piece of successful policy and decision-making lies in organisational design, enabled by integration and coordination between departments and units within them. Such integration and coordination need to be vertical as well as horizontal in nature. A network between civil servants which enables interactions and a common understanding of the problems and desired outcomes is key to better coordination (Peter, 2018).

2.4. Corruption and Reputational Risks

Theoretical work has long established that the structure of government institutions is a very important determinant of the level of corruption (Shleifer, Vishny 1993). The incentive structure for bureaucrats needs to be carefully designed to prevent malfeasance, especially when corruption detection capability is limited (Becker and Stigler 1974).

Corruption Perceptions

In 2019, India ranked 80 out of 180 countries[ix] in the Corruption Perception Index published by Transparency International. Moreover, 69% respondents in 2017 said that they paid a bribe when accessing public service in the last 12 months, as part of the Global Corruption Barometer report[x].

Corruption is symptomatic of poor management, as illustrated by bureaucrats using public institutions for "personal enrichment and the provision of benefits to the corrupt" which can contribute to “undermin[ing] the legitimacy and effectiveness of government” (Rose-Ackerman et al., 2016).

Experts posit several reasons for this increase in corrupt practices in the higher levels of bureaucracy. Krishnan and Somanathan (2017) suggest that a concerted effort at pay compression between the highest and lowest ranks, together with rising private sector salaries, led to a decrease in morale and an increase in corruption. Other mechanisms of bureaucratic corruption include conferment of special rewards beyond the normal conditions of service, such as through extensions of service and post-retirement employment opportunities in regulatory or quasi-government bodies. The creation or filling up of such posts are timed with the retirement of senior officers, which allows extraction of pensions as well as the drawing of new salaries (Krishnan and Somanathan, 2017).

Anti-corruption Policy

Alongside these developments came the introduction of anti-corruption legislation, including the Prevention of Corruption Act, 1988, the Central Vigilance Commission Act, 2003, the Lokpal and Lokayukta Act, 2013, and the WhistleBlowers Protection Act, 2014. However, rather than reducing corruption, they have had the effect of displacing corruption by bringing in certain adaptive behaviours in bureaucratic decision-making. They have reduced the willingness of officers to offer clear policy advice on potentially controversial issues; instead, officers take the safer route of holding up matters templatising decision-making to minimise the risk of prosecution, and forming committees (Krishnan and Somanathan, 2017).

For example, the Prevention of Corruption Act (PCA) 1988, Section 13(1)(d)(iii), states that “a public servant is said to commit the offence of criminal misconduct if he, while holding office as a public servant, obtains for any person any valuable thing or pecuniary advantage without any public interest.” The absence of ‘intent’, ‘negligence’, ‘recklessness’ or ‘prior knowledge’ in establishing guilt under this section has created an environment which suppresses decision-making. As Leaver (2009) puts it, the avoidance of criticism prompts even public-spirited bureaucrats to behave inefficiently.

In a welcome move, the passage of Prevention of Corruption (Amendment) Act, 2018 redefined provisions related to public servants. It made “bribery” a direct offence and introduced “intentional enrichment” in Section 13, whereas in the earlier version, intent was not included in the definition of criminal misconduct by public servants. There is also now a provision of prior permission for investigating serving and retired bureaucrats.

Paper Trail Paralysis

The fact that a decision could unintentionally, unknowingly, or tangentially cause private gains to some party, even if there is no loss to the government, has created an environment of decision paralysis. Central to bureaucrats’ self-preservation strategy is the ability to manage files, papers, and procedures. The paper trail becomes overwhelmingly important to preserving an untarnished reputation.

There is undue reliance on investigating the paper trail instead of following the money trail for prosecuting ‘criminal conspiracy’ by a public servant. An unintended consequence of this line of action is that innocent and honest bureaucrats could be prosecuted, tarnishing their reputation, and destroying careers, even as the corrupt continue to conceal the act of bribery. The practical effect of this tendency to "investigate by file reading" has led bureaucrats to feel that it is beneficial to "initially oppose on file any request from the private sector, or indeed a private citizen, even if genuine" to manage the risk of prosecution (Krishnan and Somanathan, 2017).

2.5. Political Alignment and Interference

A common view of the politician-bureaucrat relationship sees the politician determining policies and the bureaucrat implementing them. This view, while simplistic and stylised, conveys a broad sense of the roles these actors play. Typically, it is the case that large policy reform requires political will. Furthermore, it is also true that politicians do not usually involve themselves in the nitty-gritty of policy implementation. However, the nature of the politician-bureaucrat relation is complex. There is now a new set of studies in political economy that helps us understand how this plays out.

There is evidence to suggest that bureaucrats work more efficiently when they work with politicians who (i) are aligned with the party in power, (ii) command a large vote-base, and (iii) are the sole representative liaising with the bureaucrat.

Electoral Support

For example, BDOs have more resources at their disposal when they work in constituencies whose politicians are aligned with the party in power at the centre (Dasgupta and Kapur, 2017). Moreover, Nath (2018) argues that bureaucrats respond better to politicians who are elected with large vote margins. The paper matches politicians to bureaucrats from across India. As an outcome, the paper focuses on time taken by the bureaucrat to approve projects under the Member of Parliament Local Area Development scheme (MPLADS). The main finding is that bureaucrats working under politicians who have larger vote margins—i.e., when the constituency is a politician's stronghold—take 11% less time to approve projects.

Clear Reporting Channel

Bureaucrats work more efficiently when they are directly under the control of a single politician (Gulzar and Pasquale, 2017). As noted by Kajal, et al., (2012) "multiple principals necessitate more coordination, potentially at the expense of other productive activities." They find that public officials "operating under multiple principals spend significantly more time in meetings and traveling, and less time interacting with clients" (Kajal, et al., 2012). For example, at the state-level in India, in many instances, a single bureaucrat (say, the District Collector) is answerable to multiple politicians (say, Members of the Legislative Assembly). This is partly due to the uneven overlap of political (electoral constituencies) and bureaucratic (administrative boundaries) jurisdictions in India (Gulzar and Pasquale, 2017).

There are at least three reasons why this could be problematic: first, politicians may not be able to claim full credit for the bureaucrat's performance, and this could weaken their incentives to monitor performance; second, some politicians may choose to free-ride on other politicians responsible for motivating the bureaucrat, consequently decreasing political oversight over the bureaucrat; third, politicians may jostle for control, which could have negative effects on development outcomes. Gulzar and Pasquale (2017) argue that when it comes to implementation of the National Rural Employment

Guarantee Act, 2005, the credit-claiming story may be the most likely cause for single politicians' superiority over multiple politicians.

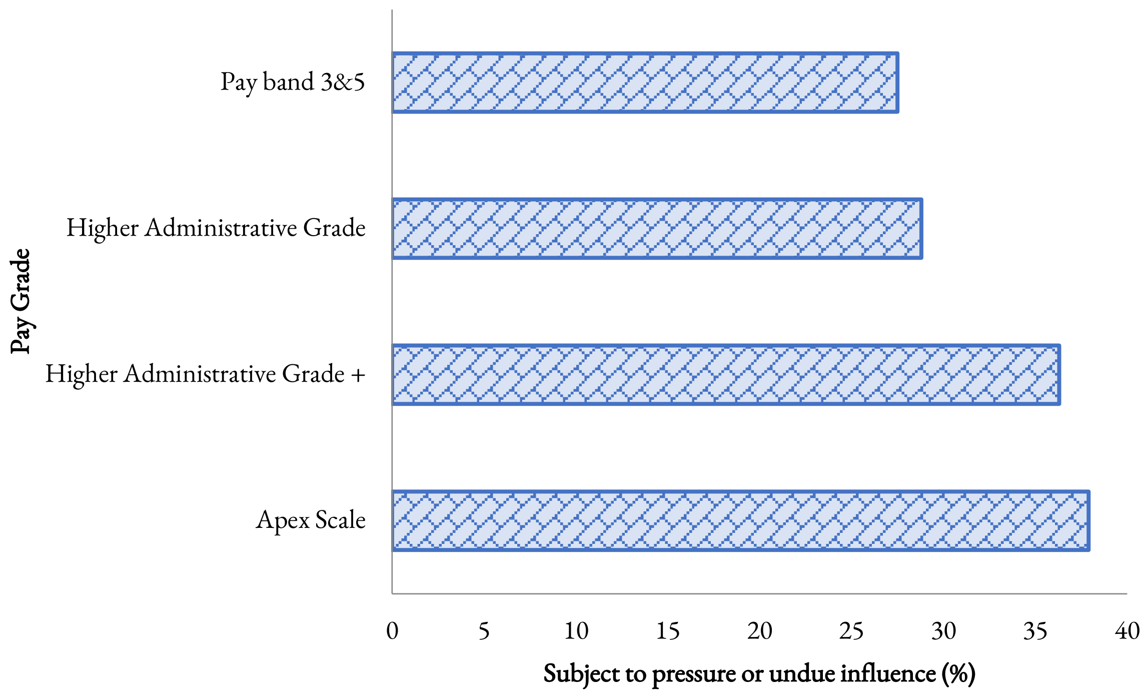
While bureaucratic decision-making benefits from political will or support, it suffers greatly under political interference. Lack of independence and political interference makes bureaucrats subservient to the political class, to whom they pass on their decision-making to avoid reputational and career risks.

Political Punishments

The incidence of this interference with bureaucrats' careers is evident in the pattern of bureaucratic transfers which are known to rise when new politicians are appointed (Mani and Iyer, 2012). The authors exemplify this with the state of Tamil Nadu, where the spike in transfers corresponds clearly to the change in chief minister. Khemani (2007) has also shown that discretionary transfers executed by the Planning Commission were often distributed to favour states that were politically important for the central power. Transfers are therefore a well established mechanism to trade and assert political power.

The literature on this subject points to two factors that further exacerbate this dynamic. First, it appears that bureaucrats at senior levels are more likely to experience political interference and loss of decision-making power, as can be seen in Figure 7 below (where Apex Scale is one of the highest grades in the civil service, typically signifying a position such as a Chief Secretary of a State).

Figure 7: Perception of civil servants on undue external influence (Base = 4517)



Source: Indian Civil Servants Survey (DARPG, 2010)

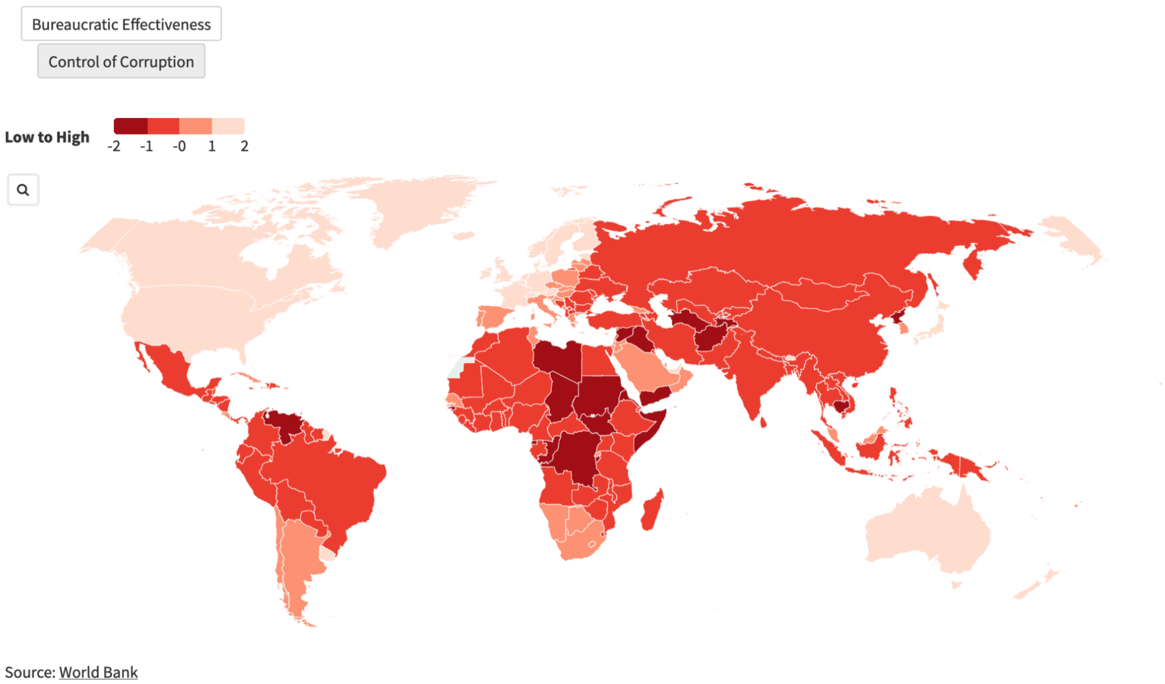
Second, it has been argued that bureaucrats that are assigned to their home states are perceived to be more corrupt and less able to withstand political pressure (Xu, Bertrand, and Burgess, 2020). The

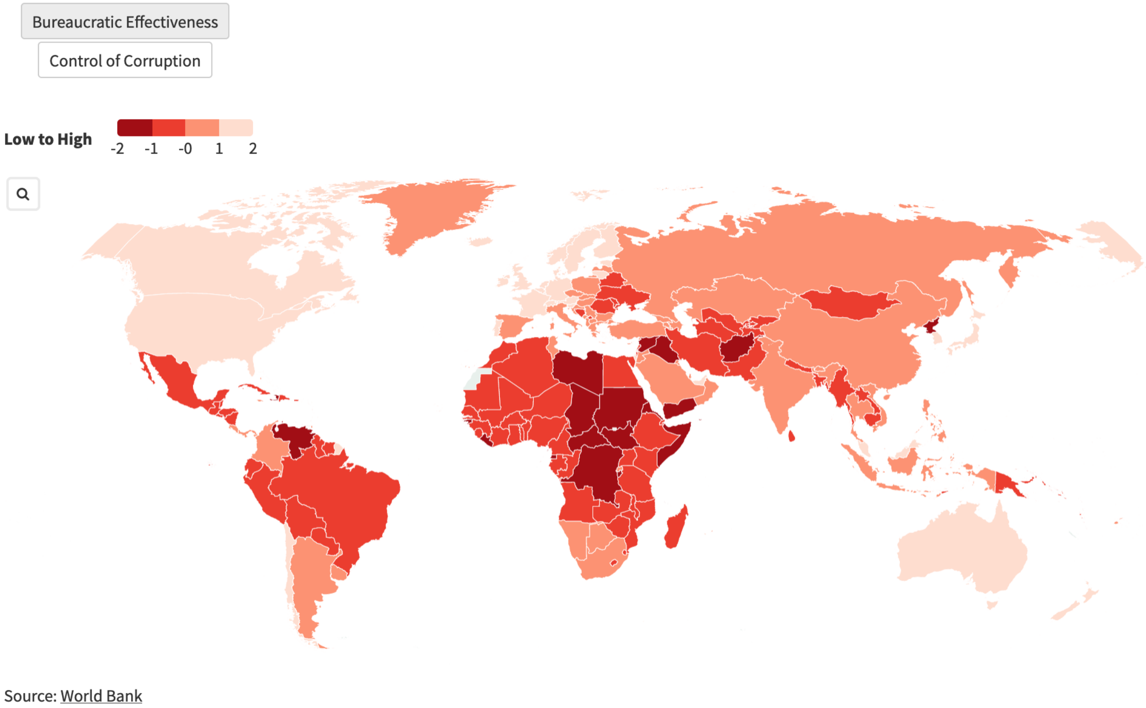
IAS cadre allocations rules require that only one-third of any given cadre may comprise officers serving in their home state (Khosla and Vaishnav, 2016). In both cases, we can see that organisational and social proximity to political decision-makers translates to higher political pressure or influence.

The impact of this interference and exposure to political corruption takes multiple forms. First, “endemic political interference can lead to rent-seeking behavior even for honest officers” (Khosla and Vaishnav, 2016). This takes place through activities like garnering favors, directing decisions toward self-benefit. As you can see in Figure 8 below, bureaucratic effectiveness closely relates to control over corruption, and countries which exercise high control of corruption are also the same countries that show most bureaucratic effectiveness. India ranks 106/214 on corruption control and 76/214 on bureaucratic effectiveness.

Interestingly, there is also early evidence that better financial incentives, especially through higher public sector wages, are not associated with lower corruption, indicating that deeper administrative reforms are required (Jakiela 2018)

Figure 8: Global Mapping of Corruption Control and Bureaucratic Effectiveness





Source: World Bank, 2018

III Conclusion

In this paper, we discuss the various reasons for bureaucratic indecision, uncertainty, and risk-aversion. This includes flaws in organizational design, restrictive institutional norms, and political misalignment. While this paper focuses on IAS officers, much of its learnings are applicable to state, district, and block-level administrations as well. Local administrators have even less access to resources and training compared to IAS officers and are, under certain circumstances, less empowered to take autonomous decisions and more exposed to personal risks.

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NOTES

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[ii] While risks are decisions where potential outcomes and their likelihoods are known in advance, decisions under uncertainty take place without either information. For example, during the initial weeks of the COVID-19 pandemic, when little was known about viral transmission rates and the media of transmission. At the time, governments had to decide about mobility and access restrictions under *uncertainty*. However, in later stages of the pandemic, the *risk* of transmission in different circumstances could be estimated based on case data and other information collected up to that point.
[iii] Author analysis using www.mediacloud.org

[iv] Selected based on the relevance to the subject of this working paper
[v] Authors measure this in terms of decrease in procurement prices and find that autonomy granted to officers with ineffective monitors can reduce price by 20%.
[vi] Note that BDOs are not IAS officers, however they normally report to District Collectors, who are IAS officers.
[vii] In fact, although applicants may be less prosocial on average, when put through a recruitment process (that focuses on talent) the ultimately selected candidates are equally likely to be pro-social.
[viii] The authors, Honig and Pritchett, define accounting-based accountability as efforts to address accountability deficits by focusing primarily on improving what can be counted and verified. They argue that introducing greater accounting-based accountability will only very rarely be the appropriate solution for addressing accountability problems by exploring the role of Accountability ICT in the education system performance.
[ix] Transparency International / Corruption Perception Index https://www.transparency.org/en/countries/india
[x] Transparency International / Global Corruption Barometer: Asia Pacific. https://www.transparency.org/en/gcb/asia-pacific/asia-pacific-2017

Indian Public Policy Review 2021, 2(6): 88-94

Fault lines, Litany of Blunders in the Federal Union of States

Review article on "India – A Federal Union of States: Fault Lines, Challenges and Opportunities" by Madhav Godbole

M Govinda Rao*

I Introduction

India- A Federal Union of States: Fault Lines, Challenges and Opportunities (Konark Publishers Pvt Ltd., pp. xcv +349. Rs. 800) is yet another contribution from Dr. Madhav Godbole in the long list of well researched books on India's governance. This book combines his deep understanding from the review of history, his vast administrative experience, his ringside view of politics and exhaustive understanding of the Constitution and the nuances of federalism. All these converge forming an authoritative study on the evolution of the Indian Union, the fault lines and the challenges they create and what needs to be done to overcome the challenges. The evolution of the Indian Union is traced right from the system of dyarchy designed in the Government of India Act, 1919. It goes on to detail the basic governance and assignment system set out in the Government of India Act, 1935, the roles played by different leaders in ensuring the integration of 554 principalities within the country and to create a 'holding together' federation (as compared to coming together in most other federations), and the legacy of colonial rule in shaping the Constitution of Indian Republic and creating the Union with heavy centripetal bias. The basic fault lines inherent in the colonial legacy in the Constitution exacerbated with the planned development strategy, ending the hegemonistic relationship between the Union and the States. The end of single party rule has created an atmosphere of disharmony and a lack of cordiality and trust between the Union and the States. While the book touches on these preliminaries, the essential focus of the book is on Jammu and Kashmir and the origins and perpetuation of the problems.

The book has five long chapters and begins with identifying the fault lines in the Constitution, the challenges they pose and the ways to move toward a cooperative federation. It begins with the evolution of India's independent republic, identifies the birth defects of the Union arising from heavy reliance on the systems and institutions of the colonial past. The second and third chapters focus on the integration of Jammu and Kashmir and the fault lines arising from the inability to act decisively at critical times, the creation of Article 370 in the Constitution and its eventual abrogation, stripping of the Statehood and creation of separate Union Territories of Jammu and Kashmir and Ladakh. The chapters bring out the perpetual problems created by the personal weaknesses of the then Prime Minister, Pandit Jawaharlal Nehru, a litany of blunders and a cunning role played by the Kashmiri leaders and most prominently, Shaikh Abdulla. The fourth chapter identifies additional fault lines arising from sub nationalism – of mixing religion with politics, linguistic and local chauvinism and bringing in cultural factors for division.

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The last chapter brings out the tendency to create various impediments to mobility, the contagious approach to localisation in employment and admission to educational institutions, factor and product market distortions created by imposing impediments to mobility and trade. It also makes some references to foster cooperative federalism.

II Colonial legacy and Emerging Fault Lines

The gradual movement towards multilevel governance during the colonial rule began with the system of dyarchy – the creation of Governors' provinces and demarcation of certain subjects as 'provincial subjects' under the Government of India Act, 1919. The Commission reviewing the implementation of the 1919 Act recommended the creation of responsible government at the provincial level in place of a dyarchy to which the rulers of some Indian states too agreed to form the federation of British India provinces and Indian states. The subsequent Round Table Conference which discussed these issues led to the enactment of the Government of India Act, 1935. Interestingly, the Congress party which was leading the fight for independence was initially opposed to the Government of India Act and Pandit Jawaharlal Nehru characterised it as a 'charter of slavery', but later he is reported to have said that it 'proved to be an organic link between the old and new.' The overwhelming dependence of the Indian Constitution on the 1935 Act was palpable and the author quotes S. S. Gill, "The Constitution of India cannibalised the much maligned Government of India Act, 1935 to the extent of incorporating 235 of its sections. The entire judicial and administrative framework of old rules, regulations and procedures were also added wholesale" (p. 6).

Godbole brings out the decisive role played by Sardar Patel as the Union Home Minister in integrating 554 princely states into 14 administrative units with remarkable speed and alacrity. It was no mean task. In fact, Winston Churchill had stated that India was merely 'a geographical expression, no more than a single country than the Equator'. But within two years after independence, the task of peacefully unifying India was accomplished. Administrative integration was accomplished even before the Constitution was adopted and that too, peacefully. However, a number of fault lines appeared posing formidable challenges.

A crucial difference between decentralisation and federalism rests on ownership rights in constitutional powers (Breton, 2000). Under federalism, the powers of governmental units cannot be repressed or extinguished unilaterally, and the Constitution provides the safeguards and ensures enforcement of ownership rights. In this sense, Article 3 of the Constitution gives powers to the Parliament to virtually abolish or cannibalise the States simply by referring the bill containing the proposal for change by the President to the concerned State legislature. While this provision could have been helpful in integrating the princely states into 14 states, it failed to protect the very existence of the States and opened up a can of worms in terms of demands for statehood. The book highlights the harm created by intensified sub nationalism in the country, but can the balkanisation of States be arrested if more checks and balances are provided?

The inability to evolve a cordial Union-State relationship is the first major shortfall in the Union's functioning. The legacy of colonial rule and the partition of the country and the need to arrest the fissiparous tendencies by the native rulers were combined to create the Constitution with heavy centripetal bias. The adoption of centralised planning of the economy vested the power of resource allocation to the Centre. With the task of nation building paramount and with the overwhelming presence of the Congress party, the Constituent Assembly could not foresee the emergence of multi-party democracy. When opposing parties are elected to power in the Centre and States, disharmony and mistrust emerge. Finally, ideologically, both the Congress and BJP, the two major national political parties believe in the strong Centre and do not like to entrust a larger role for the States in national affairs. Not surprisingly, there is no spirit of accommodation. Raja Chelliah once stated, ‘everyone wants decentralization, but only up to his level’.

Clarity in the assignment system is important for both efficiency and accountability in service delivery. Assignments must be done according to comparative advantage of different governmental levels. However, certain overlapping assignments are unavoidable. The entire construct of the decentralisation theorem in fiscal federalism is on dealing with spillovers arising from overlapping assignments. Comparative advantage is decided by comparing welfare/efficiency gains from providing public services according to diversified preferences in a decentralised assignment with cost savings from scale economy from centralised assignment. The basic point, as stated by Breton (1996; p.185) is that if the Central government can elicit diversified preferences and provide public services accordingly, “decentralisation is not only not necessary but wasteful”. The passage of time, changes in technology, political and administrative environment may make a case for having a fresh look at the assignment system. Thus, there is no ideology or established theorem in fiscal federalism literature that decentralisation is preferable to centralisation in all cases. While agreeing that national interest should be the guiding principle in reviewing the Seventh Schedule, it is unclear what is meant by ‘narrow concerns of federalism’.

Although it makes eminent sense to review the Seventh Schedule, it is important to be careful to ensure that the assignment system enables efficient provision of public services. In this sense, the discussion on the division of legislative powers is ambivalent to some extent. The author presents considerable discussion on the concentration of subjects in the Union and State Lists and yet argues that the concurrent list needs to be enlarged mainly by transferring the State subjects to ensure uniform standards and provision of public services from a national perspective. There is no discussion on which subjects from the Union list can be transferred to the Concurrent or the State List. However, even as some legislative powers are moved out of the State List to the Union List, it is important to clarify the relative roles of the two levels. If setting uniform norms and standards is the issue, the Centre’s role should be confined to all measures towards that, and actual delivery of the service could be done by the States. In other words, the relook at the Seventh Schedule should be accompanied by activity mapping to minimise overlapping and achieving clarity in the assignment system.

The fault lines in Indian Union begins with the lack of cordiality or harmonious relationship between the Union and the States. The failure to foresee a multiparty democracy and end of the single party rule reinforced by frequent elections and hegemonistic approach by the two major national parties, makes harmonious relationships between the ruling party or coalition at the Centre and those ruled by opposition parties in the States difficult. The office of Governor, a colonial legacy of having an unelected head of a State has over the years, been used by the ruling party at the Centre to control and constrain States by appointing the members of the ruling party. The ruling parties at the states see their main task as furthering the agenda of the party and act as the agent of the Central government which breeds mistrust and disharmony. The misuse of Article 356 to dismiss the elected governments on the ground that the constitutional machinery has broken was a source of instability, but the supreme court judgement on S. R. Bommai versus the Union of India that the decision to impose presidential rule in a state is judiciable has brought a check against the misuse. However, failure to act when required, like in the case of Godhra riots or when the Babri Masjid was brought down, has only exposed the failure of the system in spite of having institutions. Going further, the book argues, “.... the second-generation reforms cannot be pushed beyond a point without the cooperation of the state governments’ (p.64).

III Kashmir and Other Fault Lines and the Perennial Search for Elusive Answers

The most important fault line of the Indian Union is the Kashmir imbroglio, and this takes a centre stage in the book in chapters 2 and 3. There is a detailed chronological account of the problem beginning with the troubled accession of the State to Indian Union. The narrative on Pakistan's adventure to occupy Kashmir forcing Hari Singh, the ruler of Kashmir to run for cover and seek accession, the hesitancy in pushing them back all the way to free it from the invaders, and the concessions made in terms of asymmetric provisions, the Delhi agreement in 1952, the repeated deceptive role played by Shaikh Abdulla, the failure to take advantage of holding 90000 Pakistani prisoners of war and 5000 sq. miles of territory in the Shimla Accord between Mrs. Gandhi and Mr. Bhutto in the Shimla agreement in 1972, all have been brought out in detail. The well-researched account of the events brings out the hesitation, indecision of the rulers in Delhi, the adventurism and crookedness of the rulers in Pakistan and deceptive role of the Kashmiri politicians. The author considers abrogation of Article 370 in August 2019, which abolished the special status to the State, which was given for a temporary period, but had acquired a permanent status as an important landmark and the much-needed break from the past.

The author lists a litany of blunders, and there are seventeen of them, made by the Government of India in dealing with the Kashmir problem. First, instead of leaving the matter of integration of Kashmir with Sardar Patel, the Prime Minister Pandit Nehru took the matter in his own hands and considering the swiftness in integrating 553 princely states and his own role in safeguarding Kashmir's future, the author believes that Sardar Patel would have played a more decisive role. Second, it was at the insistence of Shaikh Abdulla, Nehru divested the charge of Kashmir from Patel. Third, the Kashmir complication arose from linking the request for acceptance of accession by Maharaja Hari Singh with the Government of India's intention to hold a plebiscite. Fourth, there was no need for agreeing to a separate Constitution of Jammu and Kashmir. Fifth, Nehru heeding the advice by Mountbatten stopped the Indian Army from taking over all areas of Jammu and Kashmir. It was a mistake not to name Pakistan as the aggressor in India's complaint to the United Nations. Excessive reliance on Shaikh Abdulla including making the statement in the UN that India had agreed to the accession of J&K mainly because of the support extended by Shaikh Abdulla was a self-defeating assertion. The Delhi Agreement was a prime cause for the Kashmir problem with Nehru agreeing with most of the things Shaikh Abdulla pressed for. Repeated arrests of Shaikh Abdulla and his detention for nearly 11 years raised serious questions of credibility. A valuable opportunity to reap the gains from the 1971 war which could have been used to solve the problem was squandered in the Shimla agreement by converting LOC as an international border. The 1975 agreement between Indira Gandhi and Shaikh Abdulla could have been used to abolish Article 370. Treating insurgency with kid gloves for long created an atmosphere of continued violence. Deployment of the army for years together in the Kashmir Valley gave the impression that it is an occupation army. The Armed Forces Special Powers Act has become highly controversial. Finally, Pakistan's role in instigating, funding and supporting insurgency in J&K must be addressed with a new sense of urgency. The list is long and chartering a clear forward path is complicated.

Chapter 4 deals with additional fault lines and these include intermixing religion with politics. In the initial years, despite Jawaharlal Nehru's strong support to Mr. Ananthasayanam Ayyangar's resolution to separate religion from politics and ban communal organisations in the Constituent Assembly, no action was taken to amend the Constitution which required two-thirds majority in the Lok Sabha and endorsement by one-half of the States. Mrs, Indira Gandhi and Rajiv Gandhi too enjoyed significant mandate, but the matter was not carried through. The book talks in detail about the damage caused to the secular fabric of the country through the acts of destruction of Babri Masjid and the Godhra riots and impending danger that may be caused by attempts to 'liberate' Kashi Vishwanath temple from Gyanvapi Mosque and the Krishna Janmabhoomi temple in Mathura. The sad commentary is that despite resolutions from some members of the Constituent Assembly, and Commissions like the National Commission to Review the Working of the Constitution and the Supreme Court judgments, the malady of communalism continues. The question is, in a semi-feudal system where loyalties are defined by religion and caste, will the legal constitutional separation between religion and politics make any difference at all?

Another issue raised by the author is the linguistic reorganisation of States despite Nehru's opposition to linguistic chauvinism but was lost in the political milieu even by his own party. Having exhausted the linguistic rationale for the division of states, the cultural dimension was added to divide Andhra Pradesh into Andhra and Telangana. The author warns that the creation of Telangana on purely cultural grounds may set a new stage for the next round of division of States. There are also increasing signs of sub-nationalism, intolerance and localisation of jobs not only in the government but also in the private sector. The author cautions that the growing menace of sub-nationalism must be addressed with utmost urgency. Perhaps acceleration in labour intensive growth in the country is a medicine to this cancer, but other administrative actions will also be necessary. The question is, will our political leaders care for such a nationalistic perspective?

Another important fault line is the attempt to divide the States into smaller ones. Of course, states like UP and Bihar may need divisions purely for reasons of administrative effectiveness. At the same time, considering the fact that India is a Union of States with a strong Centre, creation of smaller States will further weaken their bargaining powers. The fault lines arising from domiciliary requirements and the restrictions placed on the movement of people and products and contentious problems arising from linguistic chauvinism, are also discussed in detail.

The last chapter of the book is on the measures needed to strengthen India's federalism and is captioned "Towards Cooperative Federalism". The important issues dealt with in the chapter include clarity in the assignment of legislative powers of Union Territories, the need for a constitutional court to exclusively decide on constitutional issues given the Supreme Court is unable to decide on important constitutional issues within a reasonable time period. The chapter also discusses the need for establishing a trade and commerce authority of India to ensure freer trade and commerce throughout the country. While noting that the implementation of GST has helped simplify the tax and considerably eliminate cascading, the chapter identifies the remaining reforms to be carried out in the interest of cooperative federalism. The chapter also explores alternative mechanisms to resolve Centre-State and interstate matters in view of the poor performance of the Interstate Councils.

The contentious nature and a lack of clarity in the assignment of functions between the elected government in the Union Territory of Delhi and the Lt. Governor appointed by the Government of India is discussed in detail. The author is of the opinion that Delhi should continue as a Union Territory in view of its special status as the capital of the Country. The overlapping issues, however, continue to be contentious even after the Supreme Court passed the judgement that except for police, public order and land, the powers of the elected government are supreme. However, the issue is not likely to rest anytime soon as the subsequently passed National Capital Territory (amendment) Act, 2021, clarified that 'government' in the National Capital Territory means Lt. Governor. Even in matters in which the elected government is authorised to make laws, the opinion of the Lt. Governor should be considered. This has been challenged by the Delhi government and the author notes the understandable reluctance of the Centre to grant the powers of a full state government irrespective of the party in power at the Centre. On Jammu and Kashmir, the author suggests the restoration of Statehood to create a congenial environment to initiate the political process with Ladakh separated and kept separately as a Union Territory. The impasse on the Union Territory of Chandigarh has been squarely attributed to Indira Gandhi's rigid stand and recommends the transfer of Chandigarh to Punjab along with a decision to build a new capital for Haryana.

On GST, the author is clear that crisis management due to COVID-19 pandemic should not deter the reforms to stabilise and improve the structure and operation of the tax. This includes making the tax system more comprehensive by including land and real estate and electricity. He states that the move towards single rate or two rates will have to be gradual after stabilising the revenue. On petroleum products, where it is necessary to include in the GST base. Considering that they contribute to 42 per cent of the revenue from domestic indirect taxes, the inclusion becomes feasible only when the revenue stabilises and the expansion of the base along the lines suggested are accomplished in two to three years. The need for having a strong technical secretariat comprising administrators, economists, accountants and lawyers is also emphasised. The author concludes, "With all its shortcomings, GST has helped India to take giant strides towards the objective of cooperative federalism". Not all will agree to this since the States agreed to forgo their fiscal autonomy in favour of tax harmonisation. That was primarily done by assuring them compensation against loss of revenue with the base year revenue escalated at 14% per year. The failure to generate the expected revenue buoyancy and the insecurity created in the failure to honour the commitments to compensate when the pandemic struck has left a lot of apprehension, and there are questions as to what will happen when the compensation period ends in June 2022.

The discussion on institutions to resolve intergovernmental bargaining and conflict resolution goes back to the creation of the National Development Council. However, the resolution process was mainly informal as the single party ruled the Centre and in almost all the States. There were other institutions like Zonal Councils, but they had limited success in resolving issues. The first Administrative Reforms Commission had recommended setting up of a body to provide, ".... a standing machinery for effecting consultations between the Centre and the States .... on all issues of national importance" (p.289). Several states ruled by opposition parties argued for establishing an Inter-State Council (ISC) in their memoranda to the Sarkaria Commission. In fact, even the Rajamannar Committee had made the recommendation for the setting up of ISC as far back as 1971 but did not find favour with any government at the Centre until the V. P. Singh government set it up in 1990. The author, however, does not allude to the basic birth defect of the institution in that it was set up within the Union Home Ministry and as such, ceased to be independent. The author points out the lack of interest in operationalising the institution given that since 1990 only 11 meetings of ISC have been held until July 2016. The national development council could have played some role in bridging the divide, but that too has been inactive. The book does not discuss whether and to what extent the Planning Commission has played any role in promoting intergovernmental cooperation and to what extent its successor- the NITI Ayog can play.

Whenever we discuss Union-State relationships, we dwell upon cooperative federalism as a desired goal. However, most often, the desirability and achievability of this is taken for granted. Cooperative federalism is not a concept which is given unconditionally. Intergovernmental cooperation is possible only when certain preconditions are met. First cooperation is feasible in areas where there are gains from cooperation for all parties. It is also possible that when some parties gain and others lose, the gainers are willing to compensate the losers. The first precondition is the atmosphere of confidence and trust among the parties and the willingness of the more powerful members of the party to gain this. Furthermore, cost and availability of information facilitate acts of cooperation. In other words, achieving intergovernmental cooperation requires minimising information, bargaining and adjudicating costs. Minimising these transaction costs requires effective judiciary, free press, and systems and institutions for bargaining and conflict resolution. The GST Council is still a work in progress and the pandemic has added to the mistrust. There are many more areas of mistrust between the Union and States and creation of an effective institution and bargaining are necessary.

The book does not discuss the 'competitive federalism' aspect of India's federalism which is particularly important in the context of market-based development, though there are some discussions on market promoting federalism like the creation of a national market when dealing with fault lines like impediments to trade and local reservations in labour market. Interestingly, there are preconditions for successful competitive federalism, and these include 'competitive equality' and 'cost-benefit appropriability'. Equality in competitive ability horizontally requires a measure of equality in the ability to compete for investments. In a system where per capita income differences are large, enabling the states to provide comparable levels of public services and infrastructure at comparable tax effort is infeasible. This, over time, could accentuate the divergence in incomes and can be a source of horizontal intergovernmental frictions. One possible way is to have clearly targeted specific purpose transfers to select areas to ensure minimum standards of services across the country. Of course, having 28 umbrella schemes as specific purpose transfers in the name of Centrally Sponsored Schemes is neither targeted nor provides substantial resources for equalising the levels of these meritorious services. The book does not deal with these issues.

On the whole, this is a fascinating book and is a must read for anyone interested in the history, understanding political machinations, and the role of important personalities in shaping the Indian Union. While there are several fault lines which are brought out tellingly, keeping such a Union with large diversities secure for 75 years by itself is an achievement. Godbole brings in rich knowledge of history, politics and his long years of administrative experience to bring several important facets of shaping the Indian Union, its fault lines and the way forward. This is definitely a book which deserves to be read and understood widely.

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