

Role of the State

MCR HRD Institute, Hyderabad

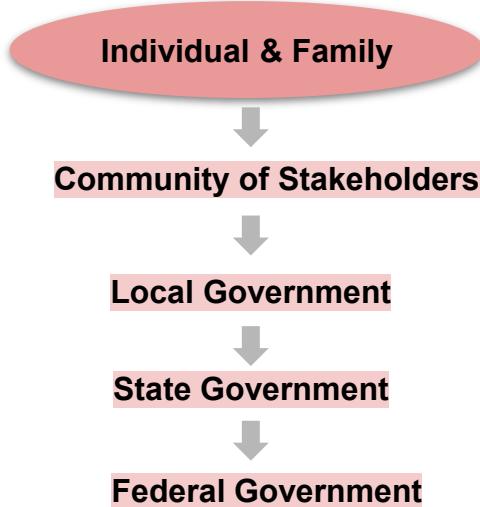
23rd December, 2025

Role of the State

What should the State do: *Core functions of the state*

Rule of Law	Public Order	Justice	Basic Amenities
Education	Infrastructure	Healthcare	Sustainable Natural Resource Development

Why do we need a State: *Principle of Subsidiarity*



As per the principle of subsidiarity, the delegation of authority does not flow downwards. Rather the individual gives up functions she cannot perform to the community, community to local governments, local governments to state, and state governments to federal government.

Is the Indian State fulfilling its role?

Comparison of Various Development Indicators Among 50 Large Economies												
Rank	GDP Per Capita (PPP, 2019)	Life Expectancy (2019)	IMR (2019)	MMR (2017)	Out-of-Pocket-Expenditure on Healthcare (2018)	EYS (Expected Years of Schooling, 2019)	MYS (Mean Years of Schooling, 2020)	HDI (Human Development Index, 2020)	Power Consumption (Kwh Per capita, 2019)	Employment in Agriculture (% of total employment, 2019)	LFPR (Labor Force Participation Rate - female, 2018)	
1	Switzerland	Hong Kong	Hong Kong	Hong Kong	South Africa	Australia	Germany	Norway	Norway	Singapore	Sweden	
2	Ireland	Japan	Japan	Italy	France	Belgium	Canada	Ireland	Canada	Argentina	Switzerland	
3	Norway	Switzerland	Finland	Norway	Netherlands	Sweden	Switzerland	Switzerland	Sweden	Hong Kong	Vietnam	
4	Singapore	Spain	Norway	Poland	United States	Finland	United States	Hong Kong	UAE	Belgium	New Zealand	
5	United States	Singapore	Sweden	Czech Republic	Thailand	Denmark	United Kingdom	Germany	United States	Israel	Netherlands	
6	Denmark	Italy	Singapore	Finland	Ireland	New Zealand	Israel	Sweden	Finland	United Kingdom	Finland	
7	Australia	South Korea	Czech Republic	Israel	Germany	Ireland	Norway	Australia	Taiwan	Germany	Denmark	
8	Netherlands	Sweden	Spain	UAE	UAE	Netherlands	Finland	Netherlands	Saudi Arabia	United States	Norway	
9	Sweden	Australia	Italy	Denmark	Japan	Norway	Japan	Denmark	South Korea	UAE	Canada	
10	Austria	Norway	South Korea	Spain	New Zealand	Argentina	New Zealand	Finland	Australia	Canada	Germany	
11	Finland	Israel	Belgium	Sweden	Denmark	Spain	Australia	Singapore	New Zealand	Sweden	Peru	
12	Hong Kong	France	Austria	Austria	Sweden	United Kingdom	Czechia	United Kingdom	Singapore	Norway	Australia	
13	Germany	Ireland	Ireland	Belgium	Czech Republic	Germany	Ireland	Belgium	France	Netherlands	United Kingdom	
14	Belgium	Canada	Israel	Ireland	Norway	Hong Kong	Denmark	New Zealand	Switzerland	Denmark	Portugal	
15	Canada	Netherlands	Australia	Japan	Saudi Arabia	Czechia	Austria	Canada	Israel	Saudi Arabia	Japan	
16	Israel	Austria	Portugal	Netherlands	Canada	Turkey	Poland	United States	Austria	France	Austria	
17	UAE	Finland	Germany	Switzerland	Colombia	Taiwan	Sweden	Austria	Czechia	Australia	Czech Republic	
18	New Zealand	Belgium	Denmark	Australia	United Kingdom	South Korea	Netherlands	Israel	Japan	Switzerland	Singapore	
19	United Kingdom	New Zealand	Netherlands	Germany	Turkey	Portugal	Hong Kong	Japan	Belgium	Czech Republic	Israel	
20	Japan	United Kingdom	Switzerland	United Kingdom	Australia	Singapore	South Korea	South Korea	Netherlands	Japan	Spain	
21	France	Denmark	United Kingdom	France	Austria	Chile	Russia	Spain	Russia	Austria	Russia	
22	Italy	Germany	France	Portugal	Finland	Switzerland	Belgium	France	Germany	Finland	China	
23	South Korea	Taiwan	Poland	Singapore	Belgium	United States	UAE	Czech Republic	Ireland	Italy	France	
24	Spain	Portugal	Taiwan	New Zealand	Romania	Poland	Taiwan	Italy	Spain	Spain	United States	
25	Taiwan	Chile	New Zealand	Canada	Poland	Canada	Singapore	UAE	China	Ireland	Ireland	
26	Czech Republic	Czech Republic	Canada	Taiwan	Israel	Israel	France	Poland	Portugal	Taiwan	Thailand	

COMPARISON OF VARIOUS DEVELOPMENT INDICATORS AMONG 50 LARGE ECONOMIES

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27	Portugal	United States	Russia	South Korea	Spain	Austria	Romania	Portugal	Malaysia	South Korea	Hong Kong
28	Saudi Arabia	UAE	United States	Chile	Italy	Italy	Argentina	Saudi Arabia	Denmark	South Africa	Belgium
29	Poland	Poland	Saudi Arabia	Russia	Brazil	Saudi Arabia	Chile	Chile	Hong Kong	Portugal	Poland
30	Chile	Turkey	Romania	Saudi Arabia	Argentina	France	Italy	Argentina	Italy	Russia	Brazil
31	Romania	Colombia	Chile	Turkey	Switzerland	Brazil	Malaysia	Romania	United Kingdom	New Zealand	Colombia
32	Russia	Thailand	UAE	Uruguay	Peru	Japan	Spain	Russia	Poland	Chile	South Korea
33	Malaysia	China	China	Romania	Portugal	Russia	Saudi Arabia	Turkey	Chile	Brazil	Argentina
34	China	Argentina	Malaysia	China	Singapore	Peru	South Africa	Malaysia	South Africa	Poland	Romania
35	Mexico	Peru	Thailand	Malaysia	Hong Kong	Thailand	Peru	Mexico	Turkey	Malaysia	Chile
36	Argentina	Malaysia	Argentina	Mexico	South Korea	Mexico	Philippines	Peru	Argentina	Mexico	Italy
37	Turkey	Brazil	Turkey	Egypt	Chile	Colombia	Portugal	Thailand	Romania	Colombia	Indonesia
38	Brazil	Romania	Peru	Thailand	Indonesia	UAE	Mexico	Colombia	Brazil	Turkey	Malaysia
39	Thailand	Vietnam	Colombia	Argentina	Malaysia	Romania	Colombia	Brazil	Vietnam	Egypt	South Africa
40	Peru	Mexico	Mexico	Vietnam	Taiwan	China	Viet Nam	China	Thailand	Romania	UAE
41	Colombia	Saudi Arabia	Brazil	Brazil	China	South Africa	Indonesia	Indonesia	Mexico	Philippines	Taiwan
42	South Africa	Russia	Vietnam	Colombia	Russia	Malaysia	China	Philippines	Egypt	China	Nigeria
43	Indonesia	Bangladesh	Egypt	Peru	Mexico	Indonesia	Turkey	South Africa	Peru	Peru	Philippines
44	Philippines	Egypt	Indonesia	South Africa	Vietnam	Egypt	Brazil	Egypt	Colombia	Indonesia	Mexico
45	Egypt	Indonesia	Philippines	Philippines	Philippines	Philippines	Thailand	Vietnam	Indonesia	Thailand	Bangladesh
46	Vietnam	Philippines	Bangladesh	Pakistan	Pakistan	Vietnam	Egypt	India	India	Nigeria	Turkey
47	Nigeria	India	South Africa	India	Egypt	India	Nigeria	Bangladesh	Philippines	Pakistan	Saudi Arabia
48	India	Pakistan	India	Bangladesh	India	Bangladesh	India	Pakistan	Pakistan	Vietnam	Pakistan
49	Bangladesh	South Africa	Pakistan	Indonesia	Bangladesh	Nigeria	Bangladesh	Nigeria	Bangladesh	Bangladesh	India
50	Pakistan	Nigeria	Nigeria	Nigeria	Nigeria	Pakistan	Pakistan	*Taiwan	Nigeria	India	Egypt

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Unfinished Tasks

Core functions still neglected

Doing business in India remains difficult

Local Governments are still weak

Opportunity denied to most people – education, healthcare, rule of law

Minimal productivity increase

Service delivery is still poor

Deepening rural & agrarian crisis

Corruption & Rent seeking

Growing distortions in the political process – money power, populism, polarisation

Crisis of Governance

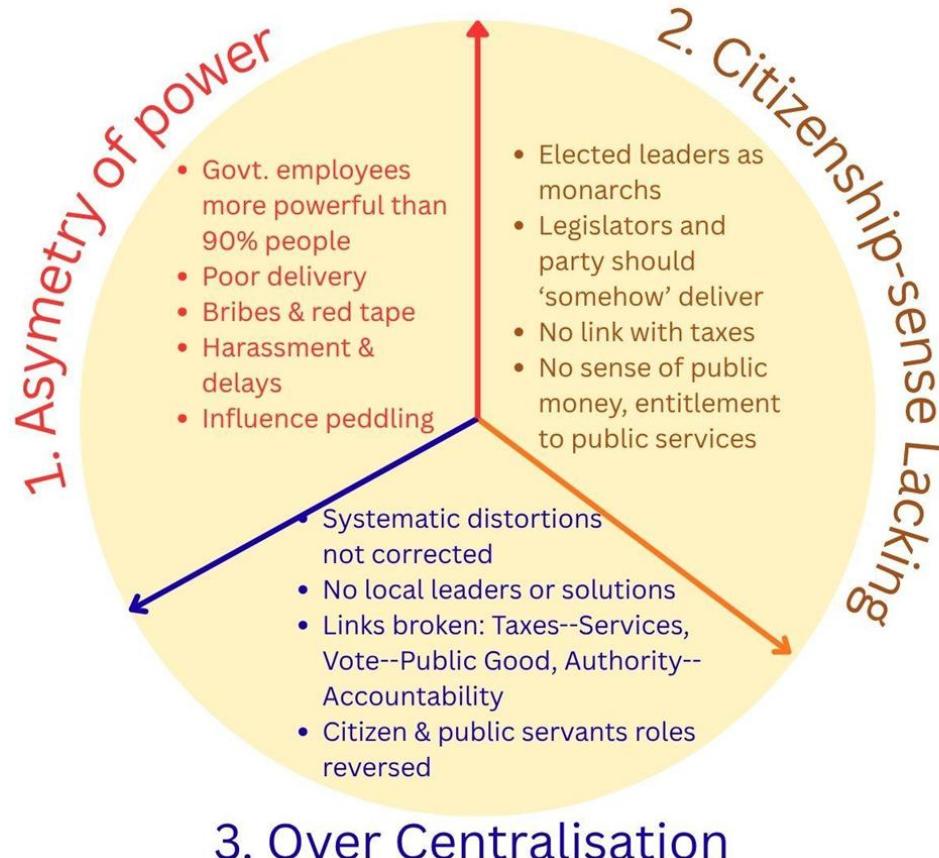
- **Inefficient state apparatus** →
 - Substandard **public amenities**
 - **No decent education** in government schools
 - **Poor health care**
- Red Tapism & **unresponsive** bureaucracy →
 - **All pervasive corruption**
- Failure of **Rule of Law**
- **Money & muscle-power** in elections →
 - **Criminalisation** of Politics
 - Vicious **cycle of corruption**
 - Even honest public servants are **passive and helpless**

Political Crisis in India: Interlocking Vicious Cycles

<i>Inexhaustible demand for illegitimate funds</i>	Direct and indirect cost of political activity driven up by informal political machinery
<i>Most expenditure incurred for vote buying</i>	Poor service delivery and vote delinked from consequence
<i>Rise of political fiefdoms</i>	Entry barriers as money, caste and local clout become critical
<i>Vote delinked from public good</i>	Centralised polity drives voter to maximise short-term gain
<i>Taxes delinked from services</i>	Deeper fiscal crisis as raising taxes or de-subsidizing or reducing public sector wages is disincentivized
<i>Political survival and honesty incompatible</i>	Dependence on legislator support for survival makes corruption and misgovernance endemic
<i>Social divisions are exacerbated</i>	Vote bank politics – marginalisation and ghettoisation based on primordial loyalties
<i>Competence & integrity excluded</i>	Need for money & caste-clout excludes competent elements from public policy & governance

How did we get here?

The initial conditions...



How did we get here?

8

choices made at the time of independence...

**System of Rule of
Law**

Weak instruments

**First-past-the-post
System**

**Competition for marginal
vote in a poor society**

**Economic
Socialism**

**Embracing state monopoly,
and fueling corruption and
dependence**

**The challenge then is to alter incentives
to alter behaviour...**

Altering Incentives – Electoral & Political Reforms

First-past-the-post (FPTP) system
A Winner-take-all system

LEADS
TO

Divisiveness and political fragmentation.

LEADS
TO

Dominance of zero-sum-game issues like *reservations*.

Vs.

Proportional Representation
Marginal Vote no longer all-important

LEADS
TO

Reduction in **competitive populism**.
Disappearance of **Political fiefdoms**.

LEADS
TO

Representation to small parties, scattered minorities and legitimate reform groups, not money power.

Risk: **Political Fragmentation**

Corrective: **Reasonably high threshold vote requirement**

Internal party democracy by law

Transparent and democratic procedures in political parties for selecting electoral candidates & office bearers.

Strong & Effective Rule of Law Instruments



Independent crime investigation
without fear or favour

Supported by cutting-edge forensic technology

Strong & competent prosecution
for criminals not to go unpunished

District Chief of Prosecution drawn from the judiciary

Adequate courts, simple procedures
making justice accessible

Local courts for offences ≤3 years of punishment

Altering Incentives – Decentralisation of Power

Empowered & Effective Local Governments

Vote  Public Good

Taxes  Services

Authority  Accountability

*Local Governments in India remain **over-structured** and **under-powered**.*

*Functions and Functionaries must be devolved to local governments through **predictable devolution**, providing them with **financial and functional autonomy**.*

Political Distortions



- **Where politics ought to be the solution, it has become the problem.**
- While the broader reform agenda requires **committed political will** and a **strong appetite for reform on a long-term basis**, challenges stemming from political distortions threaten to **derail domestic growth today**.

Fundamental Clash in Economic Vision

Fiscal Prudence and creating market conditions to enhance incomes and create wealth

Vs.

Clamour for short-term individual welfare and redistributive policies

Popular demand reinforcing short-term policies

- Across elections in major States, political parties have offered Individual Short-term Welfare (ISW) measures, or '**guarantees**'.
- While the extent of promises varies, the **emphasis** remains on short-term benefits.

WHAT NEXT?



- Despite global headwinds, India has demonstrated remarkable economic resilience, driven by consistent, growth-oriented policy measures.
- **IMF projects India's growth at 6.5% even in 2030**, reflecting stronger and more sustained growth than most economies.
- The **strong economic growth impulse** is our greatest hope for a **better democracy**.
- Higher incomes and better quality of life **promote better governance, citizen participation, and empowerment**.
- While welfare may take care of the immediate basic needs, **history has taught us that mere redistribution will not lead to improved lives for all**.

Components of Inclusive Growth



Core governance functions that facilitate economic growth while benefiting the vast majority

Fiscal prudence

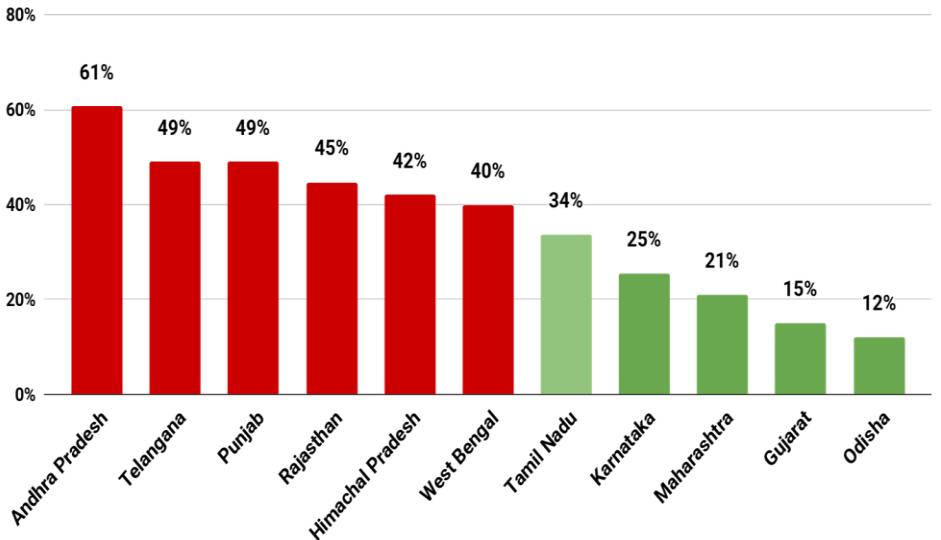
Education

Healthcare

Rule of Law

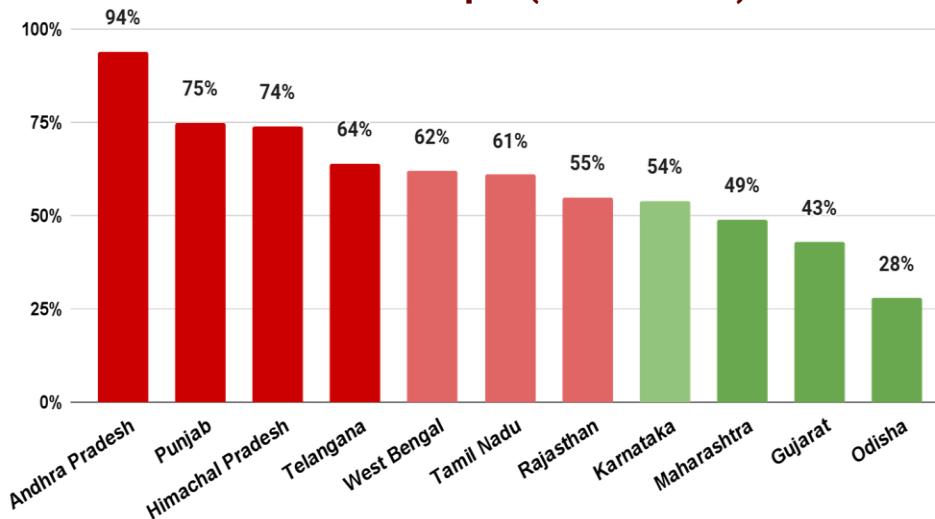
**Small Town
Development**

Debt-to-GSDP ratio (2024-25 RE*)



FRBM Target:
20%

Committed Expenditure as a Share of Total Revenue Receipts (2024-25 RE)**



For many States, expenditure on salaries, pensions, and interest payments exceeds own revenues.

A Framework for Fiscal Prudence: Key Recommendations

1. Nil revenue deficit as a condition to borrow under Article 293(4)

- a. Phase out revenue deficit grants
- b. The Union be subject to the same rule, monitored by Parliament

2. Off-Budget borrowings & deferred bills to reflect in budgets and for the application of Art 293(4)

3. One-time measure to restore the health of **fiscally stressed States**

4. Independent, transparent, non-partisan exercise of functions

5. Authoritative **data collection and monitoring** and real-time public disclosure

6. Tools like **fiscal stress test** could be explored

7. Conduct **ex-ante evaluation** of fiscal policies; **cost-benefit analysis** of large capital projects

8. Sinking fund for commitments posing future liabilities

- a. In case of reversal to Old Pension Scheme (OPS)
- b. Defined-benefit, non-contributory, unfunded defense pensions

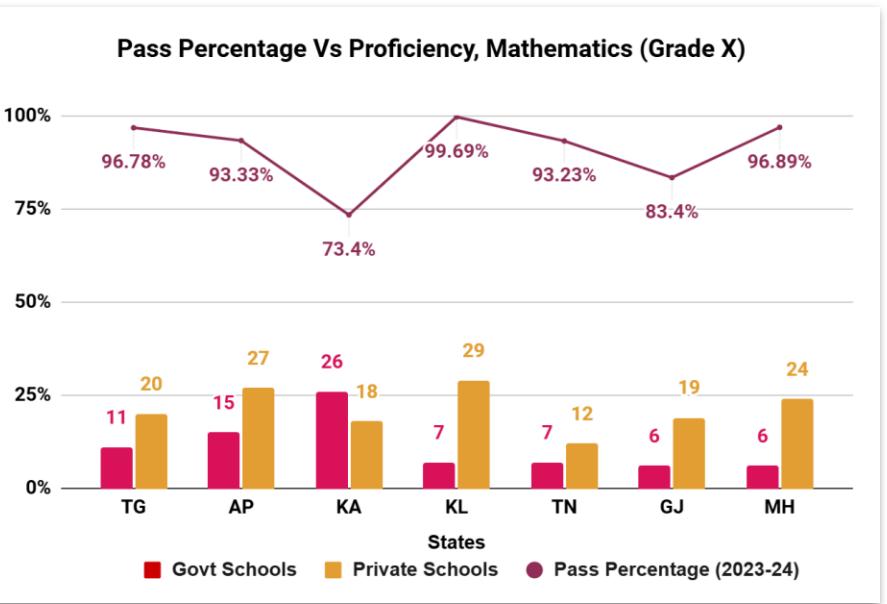
9. Switch to an **accrual-based accounting system**

Art 293 as a tool to ensure fiscal discipline

Independent monitoring & oversight of public expenditure

Protect intergenerational equity & ensure long-term health of public finances

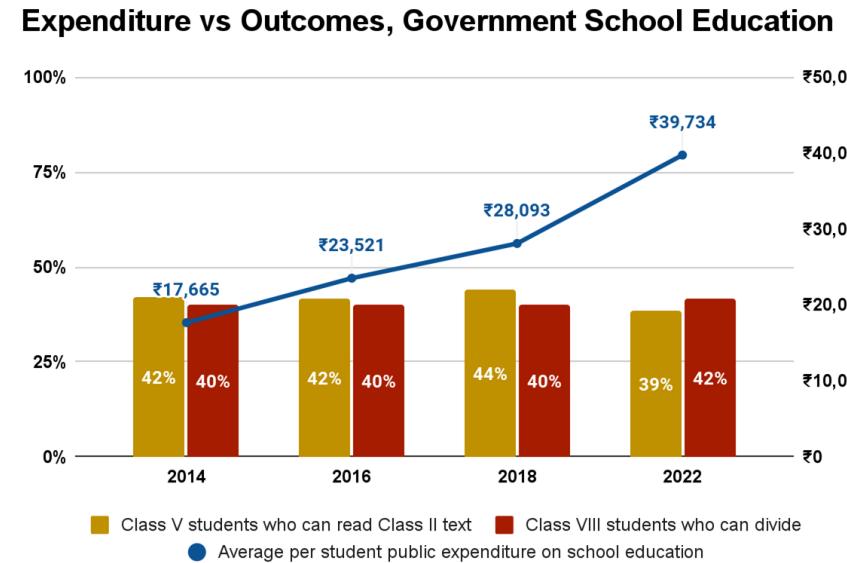
Poor learning outcomes across States and across management types



Note: TG - Telangana, AP - Andhra Pradesh, KA - Karnataka, KL - Kerala, TN - Tamil Nadu, GJ - Gujarat, MH - Maharashtra.

Source: Proficiency levels: National Achievement Survey 2021; Pass Percentage, 2023-24: Newspaper Reports

More expenditure by itself is not leading to better outcomes



Sources: ASER Reports, U-DISE, Analysis of Budgeted Expenditure on Education Reports

Components of an effective assessment framework

Stress-free continuous assessments from Grade 6, not one high-stakes test.

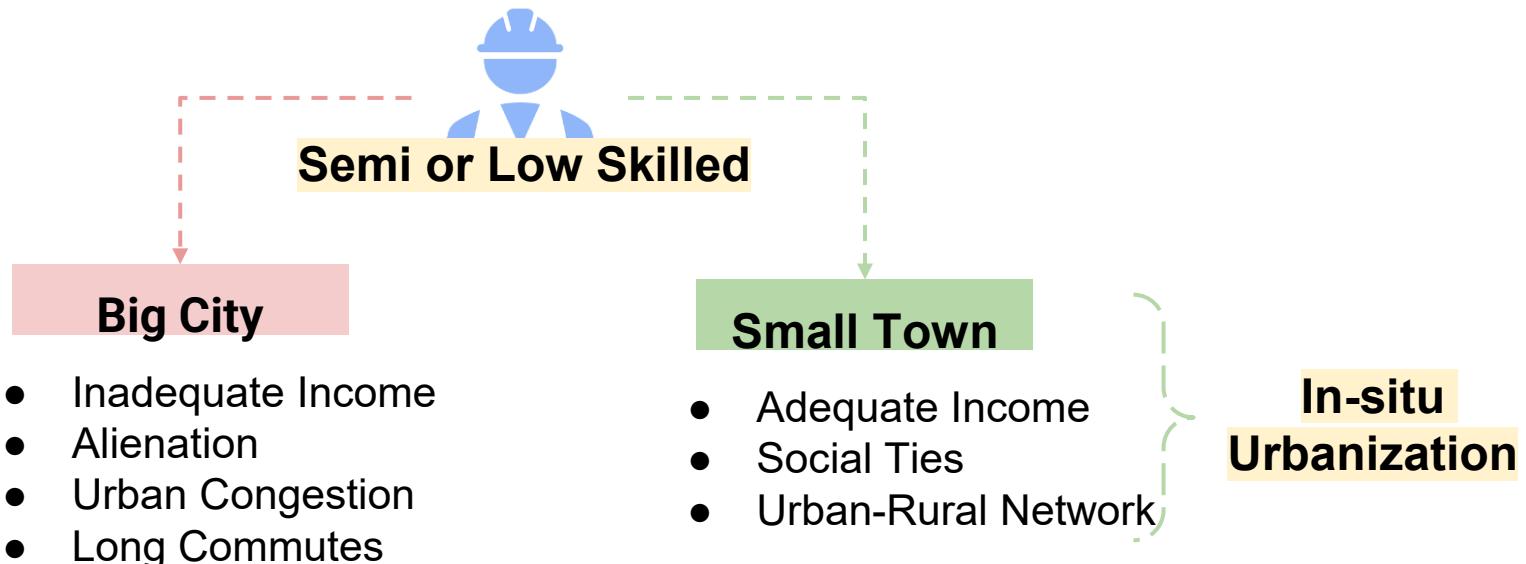
Local inspection & monitoring supported by 2-3% current government teachers

Detention policy from Grade 6 supported by regular assessments and remedial support.

- Current grade-level assessment focus on **rote memorisation** over conceptual understanding and application of concepts.
- The emphasis should shift to **application of knowledge, critical thinking, and problem-solving abilities**.
- An assessment framework that **tests and rewards real learning** will dramatically **alter the incentives** for all stakeholders.

This single intervention would then drive the **STUDENTS, TEACHERS, PARENTS, SCHOOL ADMINISTRATION**, and the market in general to **strive for 'success'** on these redefined terms, leading to better outcomes in the existing milieu **without causing much disruption or friction**.

Promotion of in-situ urbanisation to bridge the social, economic and physical gap between rural India and the big cities.



Small towns can transform into **hubs for labour-intensive manufacturing units**, providing jobs for the low and semi-skilled workforce from the neighbouring villages.

Identification

Village/Census Town/ Municipality:

- At least one in every Assembly constituency
- Natural economic hub
- Centrally located with adequate connectivity

Town Planning and Infrastructure Development

- Quality drinking water
- Stormwater drainage
- Transport networks
- Sanitation facilities

Rs.100 crores over 5 years per small town

Private Investment

- Construction
- Housing sites
- Services such as education and healthcare, and recreation

Vibrant Small Town

- Quality of life comparable to a big city
- Organic migration from villages

The lack of accessible and effective public health care is debilitating, often having catastrophic consequences for the poorest households.

Besides the immense potential for growth and jobs in the healthcare sector, ensuring universal access to quality health care will ensure that avoidable suffering is minimised and productivity of the poorest is not unduly diminished.

Major challenge today

Accessible, affordable, effective and accountable curative primary care

Approaches to reform

Incorporate elements of choice and competition

Public-funded but privately delivered care

Focus on small towns

Swift & fair justice in courts is perhaps the single biggest silent unmet need in the country.

Several crores of families are **suffering in silence** either due to protracted proceedings or enduring injustices in lieu of such proceedings.

Without **urgent and serious course correction**, public order, safety and security will be increasingly endangered.

An improvement in civil and criminal justice delivery at the lower end, **focusing on urban areas as well as safety of women** would directly affect the everyday lives of most citizens.

“But it has always been difficult to interest politicians in reform because of the slow rate of social pay-off compared with the short-term political costs of change.”

— Douglas Wass