

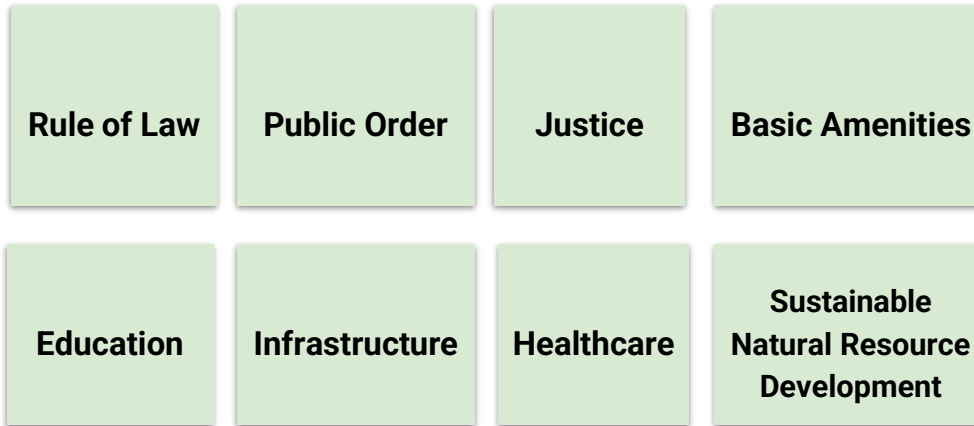
# Role of the State

**MCR HRD Institute, Hyderabad**

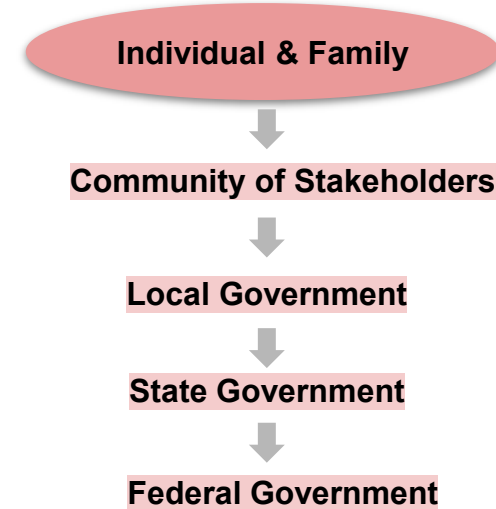
**23rd December, 2025**

# Role of the State

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



**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





# 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** →
  - **Criminalisation** of Politics
- **Money & muscle-power** in elections
  - Vicious **cycle of corruption**
  - Even honest public servants are **passive and helpless**

# Political Crisis in India: Interlocking Vicious Cycles

***Inexhaustible demand for illegitimate funds***

Direct and indirect cost of political activity driven up by informal political machinery

***Most expenditure incurred for vote buying***

Poor service delivery and vote delinked from consequence

***Rise of political fiefdoms***

Entry barriers as money, caste and local clout become critical

***Vote delinked from public good***

Centralised polity drives voter to maximise short-term gain

***Taxes delinked from services***

Deeper fiscal crisis as raising taxes or de-subsidizing or reducing public sector wages is disincentivized

***Political survival and honesty incompatible***

Dependence on legislator support for survival makes corruption and misgovernance endemic

***Social divisions are exacerbated***

Vote bank politics – marginalisation and ghettoisation based on primordial loyalties

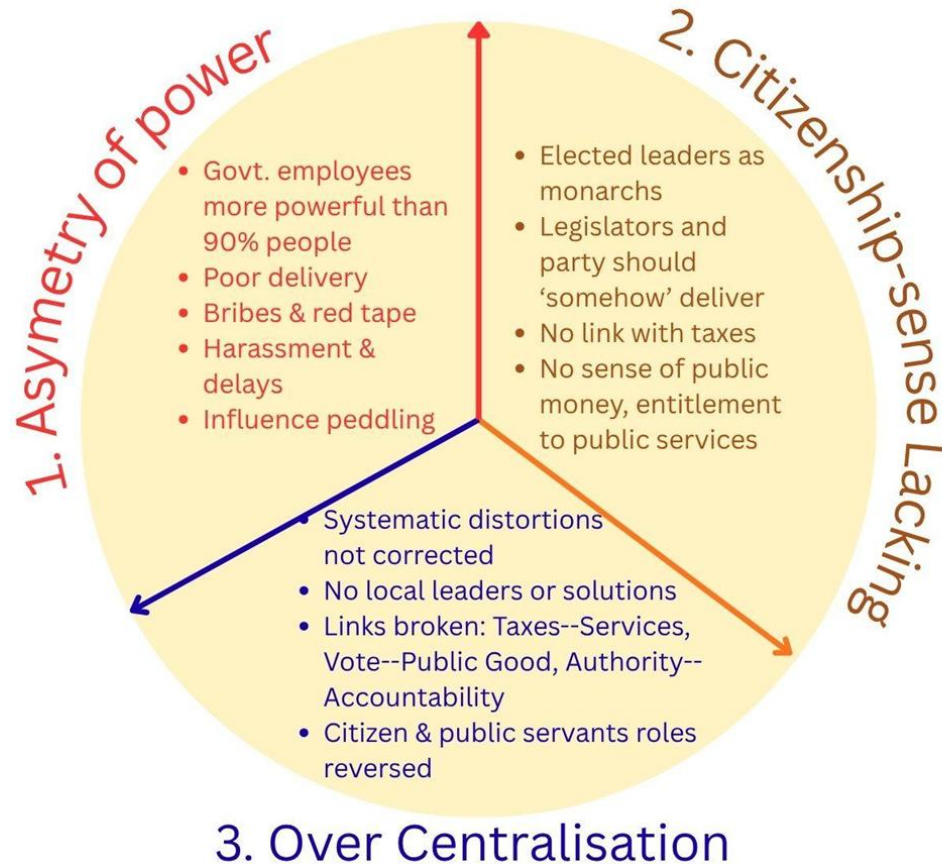
***Competence & integrity excluded***

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?

**& 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**

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**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  $\leq 3$   
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**

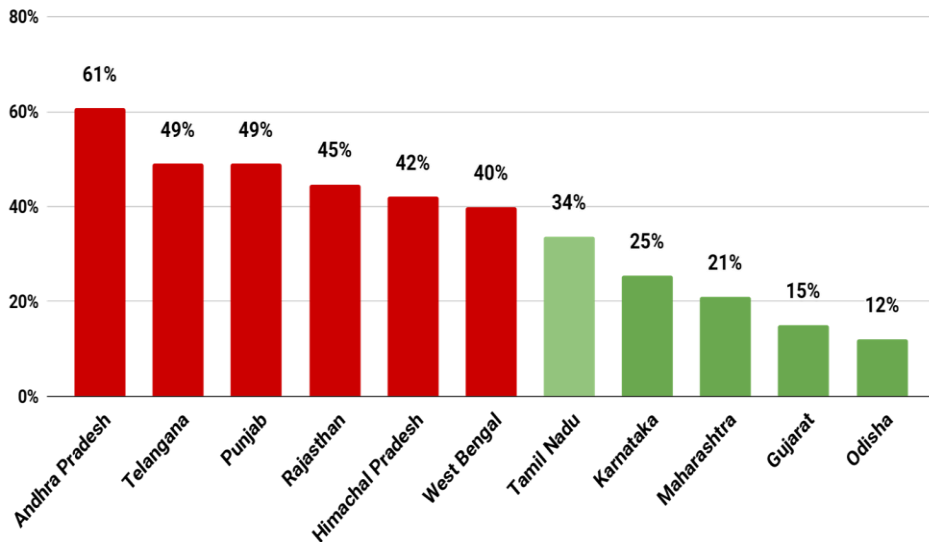
**Education**

**Healthcare**

**Rule of Law**

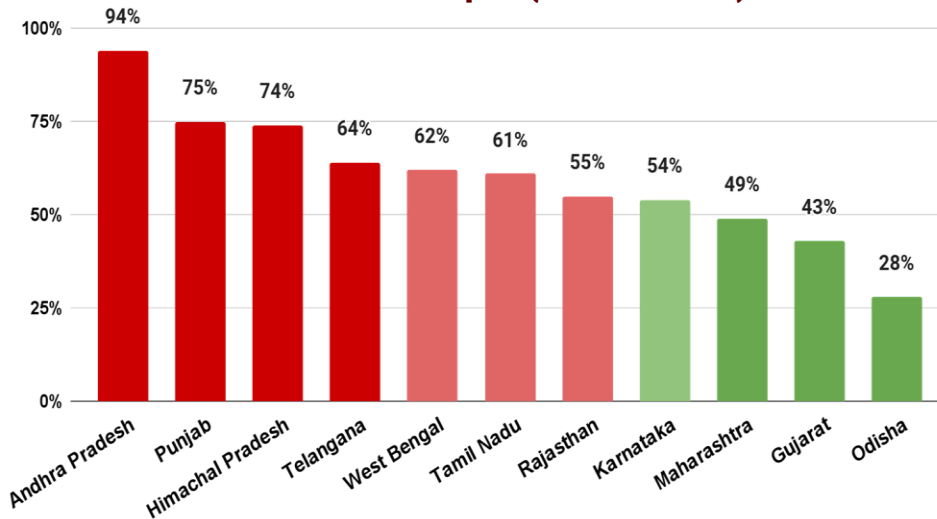
**Small Town  
Development**

### 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.**

\*Source: Respective State Budget Documents, 2025-26; Andhra Pradesh & Telangana – White Papers released by the State Governments

\*\*Source: Respective State Budget Documents 2025–26; Andhra Pradesh and Telangana figures calculated by the FDR based on state White Papers; CAG Monthly Indicators; and Budget at a Glance.

# 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**

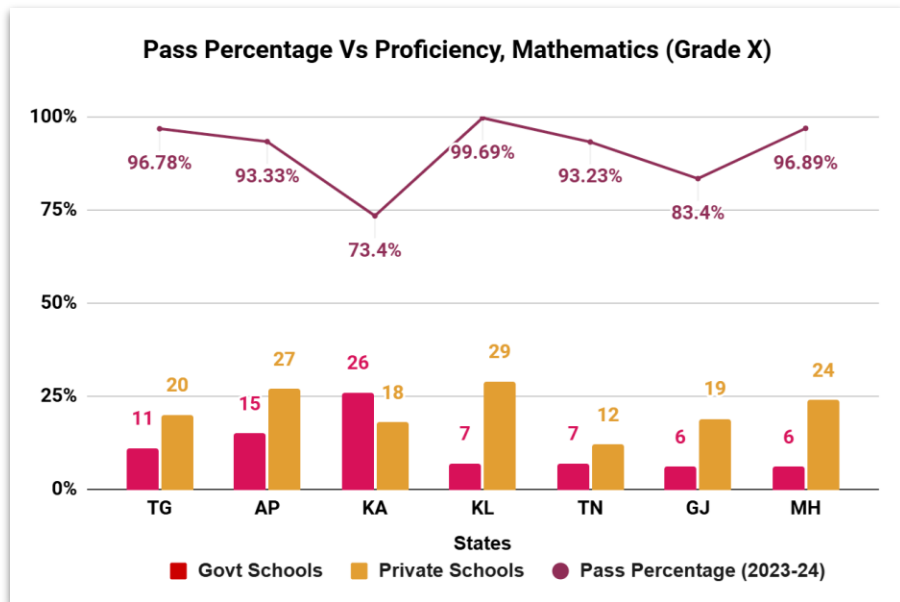
**Art 293** as a tool to ensure fiscal discipline

**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

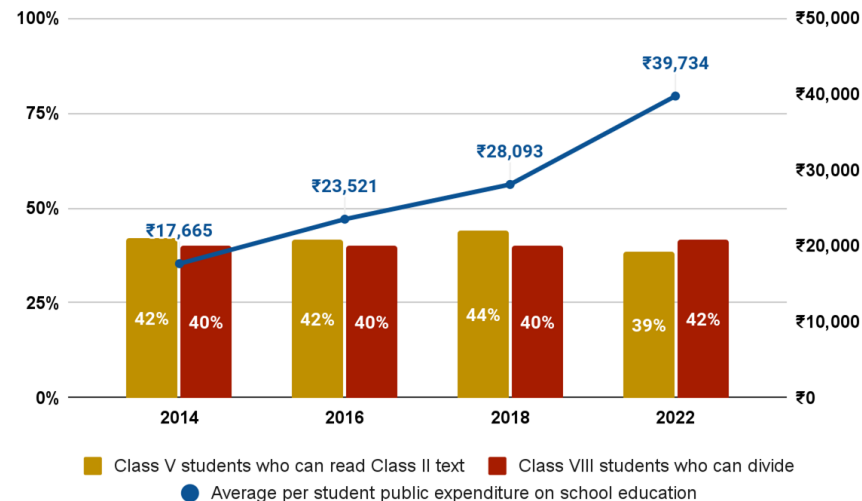


**Note:** TG - Telangana, AP - Andhra Pradesh, KA - Karnataka, KL - Kerala, TN - Tamil Nadu, GJ - Gujarat, MH - Maharashtra.

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

### More expenditure by itself is not leading to better outcomes

#### Expenditure vs Outcomes, Government School Education



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.

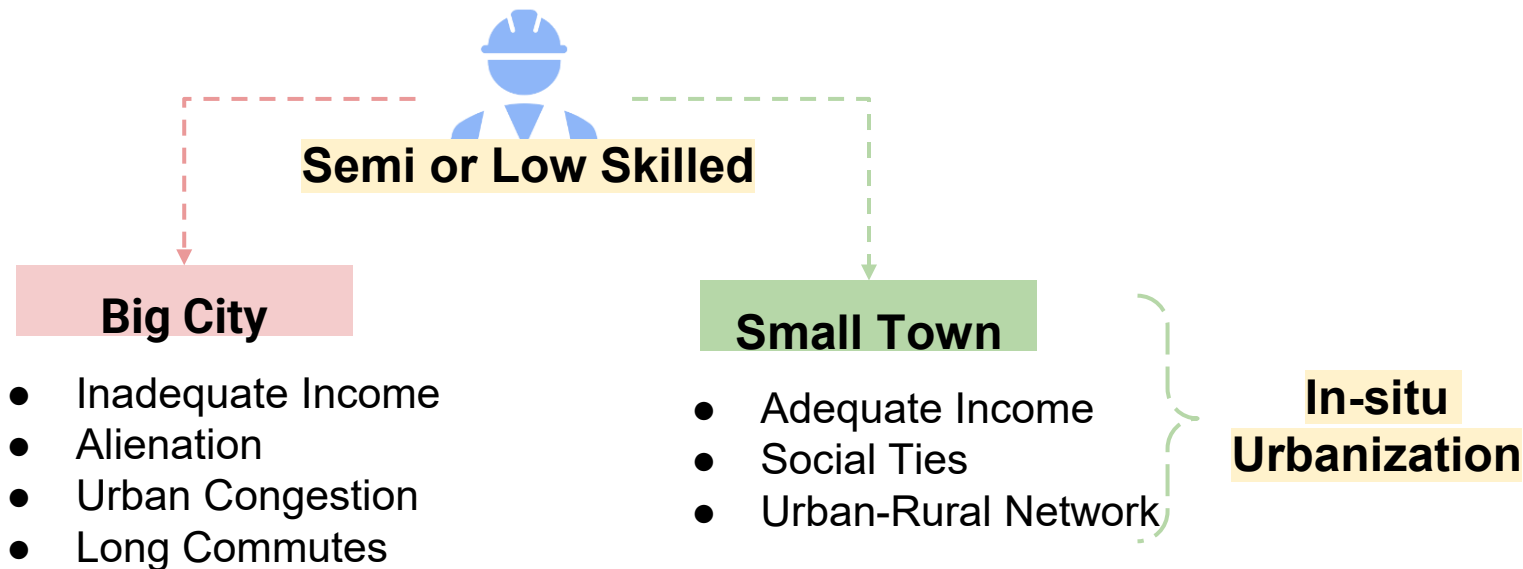
**Local inspection & monitoring** supported by 2-3% current government teachers

**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