

# Changing the state-economy relationship: some unreasonable thoughts

Abhijit V. Banerjee

# The state is everywhere

- Quite literally
  - Education
  - Healthcare
  - Public health
  - Banking/Finance
  - Infrastructure
  - Industry
  - Agriculture
  - Labor markets
  - Land markets
  - Media
  - Environment
  - Army/poilce
  - Private lives
  - Etc.
- As a owner, operator, financier, buyer, seller, regulator, taxman, redistributor, protector, moral guide..

# We run all of this with

- Less than 5000 IAS
- Similar numbers of IPS and other elite civil services—railways, revenue service, audit and accounts.
- Elite public sector corps—banking, ONGC etc.
- May be 50,000 really empowered people

# We run it very badly

- Kenya has higher “ASER” scores than we have—even though they have many more language issues
- Our PISA scores (from Tamil Nadu) are the second worst in the world
- 80 percent of all healthcare visits are to non-government facilities
  - 80 percent of those practicing medicine in those facilities are not qualified to do so
- Bangladesh does better on infant mortality
  - Many countries in SSA do better on immunization.
- We have many of the most polluted cities in the world but relatively little manufacturing
- Our police registers less than 50% of cases that people try to register and 1 in 10 property crimes are reported
- We have (of honestly reported) perhaps 20% NPA in public sector banks
- Our infrastructure is an embarrassment
- And so on..

# We need a bigger government

- That does a lot less
- What should we cut?
- Are we worse as owner/operators or as regulators?
- As owners
  - Labor is overpaid and underworked
  - Lots of wage compression—talent is not necessarily rewarded
  - Subject to populist pressures—free power and water, loan write offs
- As regulators
  - Subject huge hold up problems—badly designed contracts
  - Corruption/capture/indifference/incompetence

# A little bit of indirect evidence

- Two experiments in Gujarat by Duflo, Greenstone, Pande
  1. Who pays the (environmental) auditor?
    - Standard model—firms pay
    - Alternative—paid from a central pool
    - Makes a huge difference—the state as regulator of auditors fails completely
  2. Intensity of (environmental) inspections by the government inspectors
    - Had almost no effect on pollution—because the worst polluters were being inspected and punished already
    - State as an implementer was reasonably effective
- Not clear how general this is.

# What would an “economist” say?

- Let the market do the things where the market can in principle work
  - Education, healthcare, food, fertilizer
  - Provide effective certification of outcomes
- And where it just needs price-quality regulation—do just that
  - Distribution of water and power, sewer removal services
- Make (rather than buy) where the possibility of hold up is huge
  - Infrastructure, hospitals, educational institutions
  - But if you buy, go for the final product and a uniform price for all sellers
- Try to cut loose the financial sector
  - Never really works
  - So let them at least buy competence
- Focus on things where the market price is wrong
  - Environment, public health, policing, land

# Why is this wrong?

- Redistribution away from the poor?
- Credit constraints—say for investing in education
- Merit goods—we don't want no one to die because of they are poor. Or to not have water
- Behavioral issues—savings, health etc.
- Unconventional externalities:
  - Antibiotic resistance
  - Clean cook-stoves

# Taking these into account: An unreasonable (but mostly standard) proposal

- Large universal cash transfers—age, disability and gender based
  - Require going and claiming it every week to discourage the non-poor
- Subsidize savings—pay high interest on the first X thousand in savings
  - Security against risk and old age
- Shut down the government school system (give out vouchers?)
  - Increase in the supply of private schools--prices down and quality up
- Introduce generous scholarships based on “merit”
- Shut down sub-centers and PHCs
  - Transfer the resources to many more public hospitals in central locations, ambulances and cheap life-saving drugs
  - And in giving incentives for peri-natal/health checks, immunization
  - (Don’t pin your hopes on health insurance)
- Some drinking water given free--then charge the usual cost-plus price.

# And then

- Focus on things where the market price is wrong
  - Environment, public health, policing, land
- Don't be shy of using incentives and subsidies widely
  - Give out clean cook-stoves (make them work first), clean fuels (if you cut kerosene subsidy, do you get more coal burnt?)
- Very difficult to judge success
  - limited market metrics of success
  - Requires careful evaluations

# The objections

- How could you....?
  - The poor are much more practical about these things than their defenders
  - Some entitlements (like free rural power and water) will be hard to take away
- The government
  - Massive shrinkage in opportunities for rent –seeking
  - Inflation tax finances the government—inconsistent with protecting savings
  - Raise taxation (wealth taxes, estate taxes)
- The teachers and the health workers will have a fit
  - Important to fight this fight—distorts the entire labor market.
- Corruption: we are staking a lot on one transfer—we need some backup protection.