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BOOK REVIEW

ASIAN AGE 5.9.10 BOOK REVIEW

Some nostalgia, acute myopia

By editor

Monobina Gupta's *Left Politics In Bengal* is a critique of the Left Front government — more specifically, of the Communist Party of India-Marxist (CPI-M) — in West Bengal by a (former) fellow traveller, a one-time activist and journalist who feels for Calcutta (never mind that new name) with a passion that is difficult to brush aside and who sees in the evolution of the organised Communist movement in India a sense of betrayal.

It is possible to disagree with Gupta's politics, to question her economic and political postulates and yet appreciate her book as an honest enterprise. Her sense of hurt, emblematic of many of those who worked for the CPI(M) in the 1970s and early 1980s and rejoiced in its early victories, before it became a vote-collecting machine, is genuine. Even so, nostalgia is often more rose tinted than it should be. In 1977, Gupta writes: "Jyoti Basu had inherited a badly messed up state from his Congress predecessor, which had to be cleaned up fast. Expectations were running high. Communists, yet to metamorphose into 'power junkies', had a clean and pro-poor image, unlike their predecessors... The education system had to be overhauled on a priority basis. Bit by bit university examinations reclaimed their schedules on the academic calendar. Students received degrees in time for them to appear in competitive examinations outside the state. The power situation started

improving. Summers became bearable as fans and lights stopped playing whimsical pranks. Street lights came on and stayed that way. Lanterns were tucked away; candles were brought out only on special occasions. Calcutta moved from 'darkness to light' and the term 'load shedding' gradually lost its currency in conversations... However, an apprehension that load shedding could return with a vengeance once factories started functioning lurked somewhere at the back of the mind”.

At one level, there is nothing wrong with that paragraph. By the end of the 1980s, Calcutta University results were being declared in 12 odd weeks, not the 12 odd months (if not longer) it took a decade earlier. Even so, the best of Bengal's human capital was fleeing the state, at various stages: after school, after college, after getting a job. Calcutta University, ruled by party apparatchiki with an iron hand, exemplified the ossified intellect and barren society the CPI(M) presided over. The state had lost its vitality.

Gupta is at her best when describing the motivations of the CPI(M) as it swept to power in 1977, convinced this would be a short stint in office: “Given its past experience of President's Rule and sudden dismissals of state governments by the Congress at the Centre, the Left Front was looking at a short run on the pitch. Its aim was simple: initiate landmark policies carving out a political and electoral niche as a buffer against storms in the future; an investment necessary to pay dividends later”.

This was the genesis of Operation Barga, of offering sharecroppers the rights of permanent tenancy. However, the Left's “land reforms” need to be seen in a context. The sharecroppers (and their families) were obliged to stay on in the village, as a captive votebank for the CPI(M). In parallel, English was discouraged as a medium of education and outlawed from government primary schools. Finally, as Gupta records, “Ostrich-like, the [CPI(M)] trade union had a habit of walling itself in every time workplaces reinvented themselves... Failing to anticipate the rush of technological innovations, Centre of

Indian Trade Unions (CITU) in the 1980s slammed the door on computers and modernisation of factories, chanting instead the tired old slogans”.

Once sowed, what did these dragon’s teeth reap? Gupta outlines the framework of the Singur-Nandigram agitation 30 years later, but without quite making the connection: “Over the decades the gap had widened between English-speaking, public-school educated purveyors of the knowledge-based economy and the rustic, village-school educated people, ruthlessly pushed out of the competitive market race”.

This inequality, this criminal negligence of the needs of a modern society, this refusal to equip generations of Bengalis for a 21st century economy is the CPI(M)’s lasting legacy. It paid for it in Singur and Nandigram and will perhaps pay again in the 2011 Assembly election; unfortunately West Bengal will continue to pay much more and much longer.

Gupta is astute in depicting what she calls the “Forked Tongue”: the promotion of economic liberalisation by Buddhadeb Bhattacharjee in West Bengal and the dogged opposition to similar policies by Prakash Karat and the CPI(M) central leadership as they held the United Progressive Alliance government to ransom in the period 2004-2008. Her sympathies are obvious. She thinks well of Jyoti Basu, mourns his prime ministry that never was, and is over-sympathetic towards red rebels such as Somnath Chatterjee and Saifuddin Chowdhury.

Even so, she refuses to indict Basu for the failures of the 1980s, Bengal’s lost decade. In his approbation of political violence, in his arrogant and overbearing manner, in his willingness to impose the angularities of a cabal of ideological experimenters upon an entire state and seek to determine its destiny, was Basu any different from Bhattacharjee? Gupta’s book provokes the question. Someday, West Bengal will need to confront it.

CIVIL SERVICE

Babus, beware!

Dilip Cherian

It may sound incestuous but the strongest measure recommended to curb corruption in babudom is from a high-powered committee headed by former chairman of the Union Public Service Commission, P.C. Hota. They have recommended to the Prime Minister's Office that babus chargesheeted for corruption should face immediate

dismissal. Draconian at first sight but this suggestion will require the government to actually amend Article 311 of the Constitution, which is aimed at protecting government officials against malafide action. So can it happen, is the question babus ponder.

At the same time, Mr Hota has also recommended plea bargaining for babus facing disciplinary inquiries and protection for honest officials through creation of an independent advisory board. The board, headed by a retired Supreme Court or a high court judge, will scrutinise charges levelled against corrupt babus. This is indeed a welcome recommendation, if it ever manages to see the light of day. But for a government now keen to demonstrate its resolve to fight corruption, the Hota committee proposals are just the ammunition it requires.

PMO steps in

The Prime Minister's Office (PMO) is unwittingly the last resort for settling turf wars. Recently, the appointment of the head of the Bureau of Civil Aviation, which oversees aviation security, has been

held up because of a dispute between the ministry of civil aviation and the Union Public Service Commission (UPSC). At the centre of the dispute is G.S. Malhi, a 1974 batch Indian Police Service officer of the Haryana cadre. Currently, the bureau does not have a regular head.

Sources say that the delay in clearing Mr Malhi's appointment is due to UPSC's unwillingness to share the list approved by the ministry with the Appointments Committee of Cabinet. Now to put the matter on the fast track, Praful Patel has raised it with the PMO in the hope that Prime Minister Manmohan Singh will override UPSC's obstacle. Will that work?

Educate thyself

For that babu with a temporarily disguised but academic bent of mind (it's not a contradiction in terms) the government's recent tie up with the Indira Gandhi National Open University (Ignou) is like providing a key to a treasure trove. Shantanu Consul, secretary, Department of Personnel and Training initiated and recently signed up with Ignou to help Central government employees to enrol for the wide range of academic programmes offered by the university. The icing on the cake — all fees will be reimbursed by the government once the babus actually complete the course.

As regards ministry-specific courses, the nodal ministry will (shall we say, inevitably) be represented in the course review committee which will meet from time to time and recommend necessary changes. The onus is now on my favourite tribesmen to use this opportunity to their advantage.

CORRUPTION

HINDU 3.9.10 CORRUPTION

The slippery slope of corruption

Prabhudev Konana

Greater transparency, accountability, enforcement, and self-governance are essential to control the malaise.

An influential friend of mine once said that bribing someone with a briefcase full of cash is something that happens only in old movies: it was a thing of the past. But now cash is being taken in suitcases and gunny bags in vans to be paid as bribe. The new wealth and prosperity are, in fact, feeding a frenzy of corruption that is quickly causing the decay of societal morals and ethics. Even the national honour is up for auction in hosting the Commonwealth Games. A nation that aspires to be a superpower cannot take pride in its abysmal 84th place in the corruption perception index as measured by Transparency International.

Bribing is now considered an investment by many who seek government jobs. This investment, they assume, gives them a moral right to expect a return through more corruption. The public “servants” who dole it out seek greater investment. The honest and the financially weak often exit the government sector, only to reinforce this belief. The bureaucratic hierarchy itself is established based on the extent to which one can engage in corrupt practices, rather than on merit and honesty. The honest few with the determination to fight the system are either transferred to inconsequential roles or remain dejected and angry. The unabated corruption strengthens the power of public servants — which is truly

a slippery slope.

For citizens and businesses, it is faster and more efficient to engage in immoral and illegal activities in their interactions with government. Those who can, or are willing to, engage in such activities are likely to have fewer headaches and greater rewards. There is academic literature that argues that bribing as a means to achieve ends in an environment of pervasive corruption and archaic policies actually helps growth. But the system penalises honest and weak citizens by means of bureaucratic delaying tactics.

A recent visit to certain industrial units in Bangalore was illuminating. Factory owners, it was found, resort to an annual ritual of bribing numerous government inspectors — those who handle factories and boilers, pollution, labour, excise levies and so on. It is a rational decision since this makes things cheaper and faster. The choice is between spending countless days providing every minute detail to the inspectors, some of whom expect fair “compensation” for being there, or focussing on one's core business. One business owner told me that the inspectors themselves were expected to share their bounty along the hierarchy; else they would be pursued negatively by others. The irony here is that government “servants” who are supposed to facilitate economic activity act as “masters” of businesses.

It is unfair to blame all the problems on the government. A not-too-trivial fraction of private citizens and business owners are equally responsible for the situation, and private sector corruption could be dwarfing government-led corruption — we will never know. Private entities transact on an all-cash basis in order to avoid paying taxes. Some business owners exploit labour without paying fair wages or subjecting them to pollutants and harsh working conditions. They inflate invoices for government subsidies or contracts. Some businesses receive thousands of acres of prime land at a fraction of

the market value. A few businesses illegally tap into the electricity grid or tamper with electrical meters. A significant fraction of residential buildings do not conform to planning regulations. Businesses are set up without permits. Innocent farmers are exploited and stripped of their land at rates that are much below the market value — often with the help of the heavy-handedness by the government. The private sector flouts rules and regulations, feeding more corruption.

To prevent the exploitation of the system, the law-makers — who are part of the corrupt system — introduce greater regulations, inspections, and restrictions, without recognising that adding so-called “oversight” leads to even greater potential for corruption. Hernando de Soto, the Peruvian economist, famously said in his seminal book *Mystery of Capital: Why Capitalism Thrives in the West and Fails Everywhere Else*, that in most countries “it is very nearly as difficult to stay legal as it is to become legal.” He stated this in the context of private property rights and bureaucratic hurdles, but it applies to every aspect of government transactions.

Therefore, regulations are a double-edge sword. On the contrary, pursuing the perpetrators of corruption has been a comical exercise. In Karnataka, for example, less than 10 per cent of the government officials who were caught red-handed accepting bribes has been prosecuted. Even the laws are changed to make it harder to prosecute the culprits.

Maybe there is a need to think differently to put a lid on corruption and hopefully push it down incrementally.

Broken Window Syndrome

There is hope for improvement, and some clues can be found in my experience at the new Bengaluru International Airport. The once congested and dingy old airport, where clearing immigration and

customs, collecting baggage, and using the toilet were severe challenges, has been replaced by a clean and spacious airport. Immigration and customs clearance are fast (except for those confusing forms), respectful, and organised. There is little corruption or bureaucratic nuisance. Why have attitudes changed?

Some argue that the numerous security cameras installed there prevent officials from engaging in corruption. Some suspect that training, higher salaries, and better governance including complaint services have lowered corruption. Maybe it is the new environment: clean and nice cubicles with computers bring forth a new attitude. It could be that people standing in queues treat government officials with respect and decency. It is possible that there is pride in projecting a positive image of the country. A significant fraction of the workforce being younger and probably untainted by corruption, may have contributed to the changing attitude.

There are many variables. But, the behaviour in the old, dingy airport supports the Broken Window Syndrome first studied by James Wilson and George Kelling in housing projects (government housing for economically poor families) in New York. They argued that when a window is broken in a building and it is not fixed, then over time the rest of the windows will be broken and soon that building will be infested with plunderers, leading to social breakdown. This can be applied to a building or a community at large. When a neighbour throws garbage in a street corner, everyone else will pursue it as fair game and quickly dump more garbage as there is no perceived cost. The same applies in the matter of observing traffic signals. Socially imposed regulations cease and disorder becomes the norm — to the great dissatisfaction of law-abiding citizens.

The new airport implodes those norms of broken windows and creates a modern vision for employees to respect. Let us hope we

can replicate some of that in thousands of government buildings, hospitals, and railway and bus stations.

If security cameras can contribute to lowering corruption, then why not record all government-citizen interactions? There are costs, but it is worth the effort to put a lid on this moral decay. Maybe, honest neutral observers can be witness to government-citizen interactions. There are possibilities for corruption to occur by other means, but at least the honest ones are troubled less.

There is another point of view to reduce corruption. Stringent rules create corruption. When Customs duties on small electronic items were exorbitant and exemptions were available only to the extent of a few hundred rupees, both travellers and Customs officials found a common ground to bypass the rules through corruption. With higher exemptions in place and free import of gadgets such as laptops now, the opportunity for corruption has radically decreased. Maybe, rules must be designed to prevent incentives to cheat.

If corruption has to be controlled, there needs to be greater transparency, accountability, enforcement, and self-governance. All these are difficult to achieve, and require experimentation and different thinking. The slippery slope of corruption has a powerful downdraft where the weak and the honest suffer the most. Let us hope that the political, business, and bureaucratic establishments, with the help of pressure from the media and the citizenry, will wake up to fix the broken window of corruption.

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DISASTER MANAGEMENT

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Securing lifelines during a disaster

Vinod Thomas and Ronald S. Parker

Facilities vital to crisis response are linked to networks that will not fail them.

– PHOTO: AP



CATASTROPHE: The floods in Pakistan are estimated to have been worse than the scale of the devastating 2004 tsunami.

The frequency and intensity of natural disasters have been on the rise in recent decades. Just in 2010, a catastrophic earthquake devastated Haiti, a far stronger seismic event battered Chile, and an earthquake brought destruction to the Chinese province of Qinghai. Disasters caused by tropical storms and heavy rain have been increasing rapidly. Pakistan has suffered economic damage and massive loss of lives from what has been classified as the worst flooding it has had in decades. And most recently, massive mudslides in north-western China are claiming numerous lives and destroying infrastructure. This tragic sequence of

events is yet another demonstration that disasters are recurrent, and therefore national development planning should always involve increasing resilience and readiness over time.

The recent calamities not only produced casualties, they also triggered emergency relief intended to address the life-threatening problems of survivors. Therein lies a lesson worth taking to heart. Too often urgent care could not be provided because critical care facilities were no longer functioning, or there was no way to access services. While the headlines focus on damage, not enough attention is being given in the reconstruction efforts to the importance of ensuring functioning lifelines — notably potable water and first aid — during disasters.

Equipping human settlements to cope better with extreme natural events is a continuing process. However, much can be achieved in the immediate term by making vital installations, such as hospitals and emergency shelters, more disaster-resistant. They should have uninterrupted power supply, a network of protected access routes, and secure provision of safe water and sanitation. In too many places, facilities that are essential for an effective response are tied to networks — which are almost guaranteed to fail.

In Haiti, Chile and other countries, potable water could not be provided to victims in reasonable time, and emergency medical facilities dropped off-line just when needed most. The ability to take early action in critical care also has a cascading impact on the whole recovery process. Where basic connectivity to emergency medical care and water continues, reconstruction is that much easier — there are more able-bodied individuals when it is time to pick up the pieces.

It is unfortunate that the increase in disaster incidence and severity is taking place just as population density in many vulnerable urban areas is increasing rapidly. Although increased density is a major cause of rising damage levels, disaster damage can sometimes be relatively light even

in dense settlements when effective prevention measures are taken. Chile's relatively low level of damage given the severity of its seismic event is of interest to all. We see hopeful signs elsewhere too, that public officials are realising the importance of emphasising prevention while dealing with relief.

In India

India has improved its ability to provide early-warning systems and hurricane shelters, and evacuate areas most at risk. By 1996, preparedness in India had advanced to the point where it minimised the devastation when a cyclone hit Andhra Pradesh. The 1996 event killed 1,057 people, while a previous cyclone in 1977 had killed 11,316. One action that made a difference was that mangroves planted under a 1990 World Bank-supported cyclone response project had grown enough to provide protection and they saved the lives of many shrimp farmers and fishermen six years later. During the subsequent 1997 cyclone reconstruction project, Andhra Pradesh did construct infrastructure to higher design standards, made vulnerability assessments, and received new technology for cyclone warnings.

While poor construction is a major reason why so many lives are lost in developing countries when disasters occur, the experience in Colombia and Turkey with earthquake-resistant building codes, enforcement of construction standards and oversight of materials procurement practices are likely to pay off significantly — which is what the Chile earthquake so dramatically illustrated. And everywhere, better land-use planning is proving to be essential to ensuring that people are not putting up homes in harm's way.

Some 50 developing countries face recurrent earthquakes, mudslides, floods, hurricanes and droughts, yet many of them do not seem to recognise that such events could recur. International agencies do not acknowledge these risks as a systematic threat to their assistance, and

almost half of the countries borrowing from the World Bank for disaster response, did not mention disaster prevention or reduction in their development plans.

This must change. If we are ready to invest sizeable funds to establish mechanisms to avert financial crises, we need to do the same with the escalating hazards of nature. In a few months the world's attention will no longer be fixed on natural disasters (until the next big one, that is). Once the tragedy drops off the front pages of newspapers, international donors, like the affected countries themselves, find it hard to stay engaged with prevention efforts. This reality is yet another reason to focus on the more easily achievable goal: when rebuilding, always ensure that facilities vital to crisis response are linked to networks that will not fail them. So when the earth shakes or the waters rise, critical networks will be disaster-resilient — and the victims do not need to look at each other in desperation to survive.

(Vinod Thomas is the Director-General and Ronald S. Parker Senior Consultant at the World Bank's Independent Evaluation Group.)

ECONOMIC DEVELOPMENT

The two-decade gap

Ila Patnaik

The U.K. Sinha commission has recommended cleaning up of India's capital control regime, bringing in principles of transparency and rule of law to an opaque system of regulations that have become a maze over the years. Proposed changes include a single window for portfolio investment, an appellate body for decisions made under FEMA (the Foreign Exchange Management Act) and changes in regulations that smart lawyers help investors find ways around.

Under British rule, India had full capital account convertibility. After Independence, comprehensive capital controls were brought in, and the dreaded Foreign Exchange Regulation Act criminalised violations of capital controls. In the crisis environment of the early '90s, the Foreign Institutional Investor (FII) framework was invented. This was a difficult time for policy-makers, given that there was a crisis and a lack of knowledge about how an open economy functions.

When the FII framework was set up in the early '90s, at first tiny sums of money came in. The framework had flaws and, more importantly, the domestic capital markets were not ready. It took 10 years to set up SEBI and the NSE, to have dematerialisation, to launch derivatives trading and close down "badla". By the early 2000s India was ready to accept

foreign investment, and then the numbers galloped ahead. Through this entire period, numerous small changes were made to the framework of capital controls. These incremental changes were well-intentioned in that they aimed to solve specific problems.

By March 2009, listed companies had foreign capital of Rs 3.6 lakh crore — an enormous sum of money by any standard. Foreigners are bearing both business risk and currency risk in investing in Indian companies. This risk capital has enabled factories to be built, jobs to be created and growth in India's GDP. Today, roughly a fifth of the stock of equity capital in listed companies is from foreigners. While this lags behind what other emerging markets have achieved, it is a respectable achievement.

Events like the nuclear tests (1998), the Gujarat riots (2002), the election of a Left-supported government at the Centre (2004) and the Satyam scam (2009) caused turmoil in the stock markets but foreign investors had divergent views. While some sold shares to leave India, others treated this as a chance to buy cheap. On the whole, foreign investors have not been fair weather friends — the exits from India under stressed conditions have been modest. Foreign investors have not acted as a herd — on most days foreign buying and foreign selling, put together, is more than 20 times bigger than the net foreign buy. Foreigners are just like locals in that they have divergent opinions about what to buy and what to sell.

Today, we have 20 years of experience with how foreign investors behave. We also have 20 years of accumulated incremental changes to the law, which has yielded a mess. A variety of transactions require complicated gymnastics in order to navigate the complexity of the law. This benefits lawyers, but hurts everyone else.

In the last 20 years, we have also learned modern principles of financial regulation, about the rule of law. The rule of law requires clarity in drafting subordinated legislation, a requirement that government produce reasoned orders for every action, a requirement that orders be placed on websites for transparency and to ensure equal treatment, and an appeals procedure. Many of these features are now everyday reality with SEBI, but are mostly absent with capital controls.

Another important change that has occurred in recent years is that after the 9/11 attacks in 2001, the world has become much more concerned about being able to track terror finance. The FII framework involved a registration at SEBI, but this registration process is inadequate when compared with present thinking, and given India's new membership of the Financial Action Task Force (FATF). Regulation needs to change in the new environment.

The report by U.K. Sinha at the request of the finance ministry addresses these issues. First, the report calls for bringing about high quality rule of law in the field of capital controls. It asks that SEBI and RBI come up to high standards on the problems of well-drafted subordinated legislation, acting only in writing, producing reasoned orders, placing reasoned orders on a website, and giving aggrieved parties the option to appeal at SAT, or a similar appellate body.

The second big idea of the report is to replace the existing multiple frameworks (FII, FVCI, etc) for financial flows into India by a single framework which is termed QFI. Under the QFI the foreign investor would have to perform one KYC with an Indian bank and another KYC with an Indian depository participant. After this, he would be able to transact on the Indian securities markets and engage in other kinds of financial flows. The QFI framework simultaneously brings India up to

the post-9/11 world in terms of safety, and removes the considerable legal complexity and overhead which has crept up in recent years.

A key feature of the QFI framework is that the capital controls regime would no longer distinguish between the kinds of vehicles through which capital comes into India. Under the QFI framework, the Indian capital controls would treat identically a pension fund or an insurance company or a venture capital fund that buys shares in an Indian company. The present attempts at distinguishing between vehicles increases costs for foreigners. In addition, they are futile: the foreign investor who is prohibited from doing work under one garb has to merely repackage his money in a different garb and then come into the country.

Much more is needed to be done in terms of moving India towards greater capital account openness. The Sinha report is valuable in that it replicates the present realities — the facts on the ground — by a cleaner legal framework. It upholds the rule of law, is a part of building India into a modern market economy, reduces legal risk, clarifies the picture in the eyes of foreigners, and reduces payments to lawyers.

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GOOD GOVERNANCE

Drought clouds Nitish government's good performance

Swaminathan S Anklesaria Aiyar

Drought usually means electoral defeat for incumbent governments. So does double-digit inflation. It is a tribute to Mr Nitish Kumar's success in accelerating economic growth and improving law and order that he still has a chance of winning the 2010 state assembly election despite two successive droughts and two successive years of double digit inflation. But he will need a lot of luck and good management to scrape through. Mr Lalu Prasad (RJD) and Mr Ram Vilas Paswan (LJP) have joined hands, and have at least as good a chance of winning. Just as likely is another hung assembly, as in February 2005.

The state's Economic Survey, 2010, boasted of state GDP growth averaging 11.35% in the five years to 2008-09 , against an average of just 3.5% in the previous years of RJD rule. It also showed a virtual doubling of per capita income from 7,442 in 2004-05 to 13, 959 in 2008-09 . Inflation has eroded these gains significantly but by no means entirely. Bihari migration to Punjab/Haryana for harvesting has fallen dramatically, suggesting there are better economic opportunities within Bihar.

Now, fast GDP growth is neither necessary nor sufficient for electoral success. Mr Lalu Prasad won three state elections in a row, and came close to winning a fourth, while disdaining growth and focusing instead on caste alliances and providing reservations and dignity to Other Backward Castes (OBCs) and Muslims. By consolidating Yadav and Muslim votes, he created a firm foundation of almost 25% of voters, and so needed only another 7-8 % from other castes and allies to win. This

was for long a successful electoral formula.

Yet, those who say Bihar votes for caste and not development are oversimplifying. Casteism means every party plays the caste card, so no one party has a lasting advantage. Mr Nitish Kumar, by creating the JD(U), split the OBC vote. His Mahadalit reservations aim to split the Dalit vote. And the upper castes switched to him after seeing him as a saviour from Yadav oppression. Over and above this, he has used the Arms Act to put thousands of goons in jail, improving public confidence and safety. This, in turn, has sparked a huge boom in construction and vehicle purchases.

Earlier, buying a car or building a house would promptly result in ransom threats, so people avoided these. But not any more. This combination of lower crime, faster development and caste manipulation won Mr Kumar victories in the state election in October 2005, and in the parliamentary election in 2009.

But then, he fared rather poorly in the assembly by-elections in late 2009, leading to fears that Brahmins and Bhumihars had deserted him following a government-commissioned report on land reforms along the lines of West Bengal's reforms. Mr Kumar sought to control the damage by saying the land reform report was merely a document for public debate, not a government plan for action. Yet upper-caste doubts remain, and could prove fatal.

Larger devolution from Finance Commission awards and centrally sponsored schemes have helped increase development spending from 2,00 crore/year to 16,000 crore/year, especially on construction. Indeed, construction has been the biggest driving force in the economy. Not far behind comes public confidence, which has been transformed by the end of Mr Lalu Prasad's jungle raj.

The cellphone revolution has also boosted Bihar greatly in the last five years: Sunil Mittal of Bharti Airtel says Bihar is his fastest-growing territory. Construction has been growing by 35.8%, telecom by 17.68% and “trade, hotels and restaurants” by 17.71%. Connectivity has zoomed with 2,417 km of roads built in 2008-09 , against just 415 km in 2005-06 .

Industry, however, has not grown fast, thanks to a terrible power shortage. With no big power plants in the pipeline, this is a major structural flaw that will slow down growth in the near future. Mr Kumar hopes that if he is re-elected , private power plants will come up.

But if RJD-LJP wins, all bets are off. Mr Prasad claims that he is a changed man after having been a very successful railway minister. He says he will now bring to Bihar the same managerial skills he learned in the railways. Maybe so, but people will wait to see if it is true. Above all ordinary people fear the return of jungle raj. If the RJD-LJP combine wins, Mr Prasad will have to prove that he has truly broken ranks with the thugs that flourished in his earlier regime.

Some economists and opposition parties have accused the government of fiddling with GDP data to inflate true growth. They note that the difference between initial and final growth estimates for 2007-08 and 2008-09 were colossal. Whether or not there has been statistical fudging, the quality of data have always left much to be desired in the state. Yet even if we make the very pessimistic assumption that lowest initial estimates are best, this works out to average GDP growth of 7.34%, enough to qualify as a miracle economy , and twice as fast as in the Lalu-Rabri era.

The growth data for 2009-10 have just come in, and show a rate of 4.72%. That deceleration is unsurprising in a drought year. It drags down the fiveyear growth average, but not by very much. The average

for the five years of Mr Kumar's rule is still 10.9%, going by official data.

Note that Bihar has shown much more resilience in this drought than in earlier ones. Looking at earlier poor monsoon years, Bihar's growth in 2001-02 was minus 4.73%, in 2003-04 was minus 5.15%, and in 2005-06 was a marginal 1.89%. Bihar fared much better with 4.72% growth in the drought of 2009-10 . Sceptics will, however, cast doubts on these statistics.

But the real issue is not Mr Kumar's five-year record but the fact that in 2010 Bihar has been hit by a second drought in a row. Rainfall till September 3 was 24% below normal. In almost half of Bihar's districts, the deficiency was above 30%. This is bad news indeed for Mr Kumar. Public memory is short: In electoral terms, current distress will always trump fast growth in earlier years. Inflation is another major source of current distress, and while Mr Kumar may blame this entirely on New Delhi, voters tend to penalise chief ministers.

He nevertheless has two reasons for hope. First, many people fear the return of Mr Lalu Prasad's jungle raj; this may prove far more important in a state assembly election than it did in last year's by-elections , when voters knew that they could register a protest against the JD(U)-BJP regime.

Second, Congress is staging some sort of revival under Mr Rahul Gandhi's guidance. If it wins significantly more seats, this may be mainly at the expense of RJD-LJP , in which case it will help JD(U)-BJP . Of course, Mr Lalu Prasad hopes that any Congress gains will be at Mr Kumar's expense, and this too cannot be ruled out.

So, all three scenarios remain credible — victory for Nitish Kumar's combine, victory for Mr Lalu Prasad's combine, and a hung assembly. Take your choice.

POVERTY

Nutrition is a bigger problem than hunger

S A Aiyar

Activists demanding food as a fundamental right view the state as saviour, unperturbed by pervasive state failure in sector after sector. The public distribution system (PDS) is a public scandal. Activists say if only all states create as good a PDS as Tamil Nadu's, the system will work beautifully. This is like saying that if only all Indian cricketers play as well as Tendulkar, India will be world cricket champion. Policies must not assume that the best can always be had with sufficient moral urging. Rather, policies should be designed to work even with very sub-optimal implementation.

I am all for aiding the needy but against entitlements parading as rights, which hugely expand a corrupt, inefficient state. In National Sample Surveys, the percentage of people claiming to be hungry has fallen steadily from 15% in 1983 to 2% in 2004-5. Economists Dreze and Deaton have shown that as incomes rise, poorer Indians opt for superior foods rather than more calories. Clearly, only non-hungry people will prefer quality over quantity. Poverty is still substantial, but hunger is now marginal. Instead of rejoicing in this, leftists remain in denial.

The big problem is malnutrition, not hunger. A recent survey revealed anaemia rates of 51-74% in women and small children. Of children under three, 47% were underweight and 45% stunted by global standards. Protein deficiency is a culprit.

How do we focus on nutrition rather than presumed hunger? Not through ever-rising subsidies on food. Sonia Gandhi wants subsidized grain even for better-off folk. This aims to provide electoral security for Sonia. Don't confuse it with food security. Dreze and Amartya Sen have shown that targeting the needy can lead to huge errors — exclusion of the poor, inclusion of the non-poor. Targeting can be socially divisive and create poverty traps — if a poor man becomes non-poor, he loses his subsidized food and slips back into poverty. Hence Dreze prefers subsidies for all.

However, self-targeting can avoid problems of exclusion, inclusion and poverty traps. Maharashtra's rural employment schemes in the 1970s paid low wages that only the poor would accept, a good example of self-targeting. Ajai Shankar, former industry secretary, has an excellent suggestion for self-targeting in food — mix wheat flour (atta) with soya flour, raising its protein content but making it less palatable. Richer folk will not eat this, but poor people will. Such protein fortification of atta could help reduce protein deficiency in pregnant women and children. Ajai Shankar also suggests offering brown, unpolished rice, which has more nutrition but is less palatable than white rice, and so will be self-targeted at the poor.

I would fortify atta with not only soya but iron (to combat anaemia), iodine (to combat goitre) and Vitamin A (to combat night blindness). This will cost very little extra, yet combat serious nutritional deficiencies. It's not a silver bullet: other nutritional programmes need overhaul and strengthening too. Brown rice has two drawbacks. First, it can be resold by shopkeepers to mills at a huge profit, so the PDS incentive for massive diversion will remain. Atta mixed with soya cannot be unmixed, and so eliminates diversion. A bigger objection should be to rice in any form. Rice is the most expensive cereal, and guzzles the most water. It requires 22 irrigations per crop against eight for wheat. Rice cultivation is sustainable in high rainfall areas, but is environmentally disastrous in moderate-rainfall areas (Punjab, Haryana).

It lowers the water table precipitously, so drinking-water wells and shallow tubewells of small farmers run dry, and some of them commit suicide.

Any food entitlements should be for basic food, not for the most expensive cereal. A right to rice is conceptually like Marie Antoinette's right to cake. For centuries, poor Indians have eaten coarse grain (bajra, jowar) costing half as much as rice. If necessary, India can export rice to finance imports of twice as much coarse grain, which can then be fortified with nutritional supplements for the PDS. It will be self-targeting: richer folk will not buy it.

Some economists would rather send money to the needy than subsidize goods (food, fertilizers, electricity). But since this is politically unacceptable, a second-best solution is universal entitlement to nutritious but unpopular foods that only the poorest quarter or third of the population will actually buy.

This will be inclusive, yet relatively inexpensive. It will address the fact that nutrition is a greater problem than hunger. It will eliminate incentives to divert supplies to the open market, and so work even in corrupt states. But, like many good ideas, it will not translate instantly into votes. Will that be fatal?

PUBLIC DISTRIBUTION SYSTEM

Stem The Rot

The Supreme Court's order that foodgrain be given free to the poor instead of being allowed to rot is a severe indictment of the [UPA government](#). Agriculture minister Sharad Pawar is in the dock, and deservedly. His handling of the sugar imbroglio sometime ago drew flak. On food inflation, he has seemed keener to spread the blame than to spell out how he, holding the key food and civil supplies portfolio, has helped consumers. And he seems more focussed on heading the [ICC](#) than his ministry. When shocking waste of foodgrain coexists with widespread hunger and spiralling supply-driven prices, the buck must stop somewhere. Clearly, [India](#) needs a full-time food and agriculture minister, and Pawar doesn't seem up to the job.

However, food management and distribution pose complex problems that one-off populist or charitable actions can't solve. Long-standing structural anomalies need addressing. Again, food procurement is not just for [PDS](#) but also to prop up farmers. Such paternalism is not always prompted by contingencies like poor rains. The fact is that agriculture is nowhere near realising its potential, thanks to official feet-dragging on reforms that would substantially free the sector from political meddling and mishandling.

The PDS's overhaul and the [Food Corporation](#) of India's professionalisation are a must, for starters. But, while logistical lacunae like beneficiaries' poor access to distribution outlets do contribute to wastage, the glitches are also systemic. With a mammoth [food security](#) project on the cards, there's urgent need to rethink the PDS's centrality in the distribution edifice since an estimated two-thirds of PDS grain get

diverted to the open market. Alternative delivery systems must be considered, such as smart card-routed direct cash transfers to women heads of households in place of food subsidy. This way, food gets sold at market rates, limiting incentives for pilferage. Another option is bar-coded food coupons, as are being piloted in Andhra Pradesh, for use in all shops. Orissa's experiment with biometric smart cards to stem PDS's leakages is also worth watching. Financial inclusion and the UID project must take off to support such schemes.

Innovation can help beat storage constraints. [MP](#), for instance, plans a "ration at doorstep" scheme, a kind of home delivery that'll spare consumers harassment at PDS shops and reduce warehousing pressures. But facilities too need beefing up, with the government building FCI infrastructure with the help of private entrepreneurs or even hiring private space if the need arises. If anything, India needs to create a countrywide integrated network of godowns and cold chains to reduce waste, be it of foodgrain or fruits and vegetables. Capacity-building is needed not only for public distribution but in private farms, food processing units, retail outlets and the like. Finally, outmoded rules on movement and marketing of commodities need jettisoning, so that market dynamics freely corrects demand-supply mismatches in food availability.

Read more: [Stem The Rot - Edit Page - Opinion - Home - The Times of India](#)

RESERVATION

ECONOMIC TIMES 4.9.10 RESERVATION

Issues in tribal governance

Raghav Chandra,

The Fifth Schedule of our Constitution prescribes how to administer scheduled areas and scheduled tribes. There is a provision to set up a Tribes Advisory Council (TAC) and the governor has sweeping powers to make regulations for the peace and good governance of any scheduled area, prohibit the transfer of tribal land and regulate the business of money lenders. The governor may, after consulting the TAC, recommend to the President repealing or amendment of any law made by the Centre of the state as applicable to ascheduled area.

Another provision in Articles 243M envisages a special dispensation for scheduled tribes. Thereby, normal devolutions of Panchayati Raj brought about by the 73rd Constitutional Amendment are also held in abeyance for the scheduled areas, “Nothing in this Part shall apply to the scheduled areas.”

While the 73rd Constitutional Amendment mandates elections to panchayats in five years, in the case of scheduled areas, it is envisaged that government will give due consideration to the special needs of the tribal areas and mandate a unique methodology for their development . “Parliament may, by law, extend the provisions of this Part to the scheduled areas and the tribal areas subject to such exceptions and modifications as may be specified in such law...”

Such unique dispensation could mandate that no non-tribal can work in tribal areas, extract minerals or take away tribal land. As regards panchayats in the scheduled areas, eligibility for council membership and for heading a gram sabhacould be restricted to membership of a

tribe, a tribal could be spared electoral disqualification for minor offences under laws relating to excise/forest, tribal local bodies could be vested with powers to validate relief and rehabilitation measures as well as to impose octroi/export tax/cess on mining royalties/minor forest produce and so on.

The Panchayats (Extension to Scheduled Areas) Act, better known as Pesa Act, was born in 1996 in this light. However, the fact that this Act has a tardy history of its application has something to do with its confusing name; the emphasis currently being on Panchayati Raj methodology and not on special provisions for scheduled areas.

As per the Fifth Schedule and Article 243M, the Centre could have deliberated and mandated minimum special treatment that it wanted to deliver to the tribal areas. For instance, to merely take the context of panchayats, does it perceive the need for elections in tribal areas or recommend local tribal councils?

Pesa could have been fashioned into a proactive instrument of national tribal policy, but it is only an enabling Act.

If a state chooses not to equip its laws suitably to safeguard tribal interests, Pesa is silent, as long as no provision is inconsistent with the low threshold hinted by it. Pesa requirements are reservation of 50% seats for tribes in panchayats, consultation with — not consent of — the gram sabha before land acquisition/grant of mining lease/permits over minor forest produce, etc.

For urban areas within scheduled areas, the void is more glaring. Article 243ZC mandates that the provisions of the 74th Constitutional Amendment shall not be applicable to urban local bodies until the central government makes a law for governing them. There is no central law that has been enacted yet. As a result, in 2009, as directed by the

high court in a PIL, elections to local bodies could not be conducted in 52 Nagar Panchayats and Nagar Palikas of Madhya Pradesh and the state was forced to appoint tahsildars to run the urban local bodies.

THE Land Acquisition Act (of 1894!) is silent on the role of the gram sabha in advising the state about public purpose, local objections, compensation, etc. Moreover, vocal members of a gram sabha can be influenced at the local level. What is pertinent is the meeting of the entire gram sabha and for it to be presided over by a person from the tribes. It is necessary to balance the rights of the tribal with the requirements of economic development? What are the instances where the right to eminent domain will give precedence to the sentiments of the tribals and will allow them to veto the acquisition process? How should compensation be determined?

There is ambiguity about the methodology to be deployed. Should it be the average of three-year sales, or of only one year? Should historical use of the land define its value or future/potential usage? Should current market value based on collector guidelines be taken as benchmarks or potential value-based on opportunity cost/replacement value?

What happens where because land of tribals is historically prohibited from alienation, the market for land is nonexistent and, due to this, market-failure land values are preposterously low? Should tribals not be made primary shareholders in the project that is arising over their land, so that they benefit from the premium accruing on their land? Should equivalent cultivable land as compensation not be necessary, keeping in view the evanescence of monetary compensation? Should tribal land not revert to him or his heirs once the project for which it was acquired ceases to exist? It is noteworthy that even the Central Rehabilitation Policy of 2007, which has tilted in this direction, could not be converted into law.

Some states have taken Pesa more seriously . For instance, Madhya

Pradesh amended its Land Revenue Code in 1998, empowering a gram sabha in a scheduled area to restore possession of the land to the original holder or her legal heirs, if a non-tribal is in possession of tribal land. In case the gram sabha is unable to enforce this restoration, then it can forward the case to the sub-divisional officer, who will restore possession in three months.

Clearly, there is enormous scope for proactive legislation and institutional development to protect and promote the tribes. It is a comprehensive publicadministration approach, in which all wings of government are harmoniously involved, that is required to deal with tribal disaffection, not only a uniformed-police one.

(The author is an IAS officer. Views are personal)

Caste in confusion

Now that the Cabinet is readying to clear a census of different caste groups, at a cost of Rs 2,000 crore we're told, what are we to expect? Given it will be self-certification that will be used, and the benefits to be got from being SC, ST or OBC, there is an incentive for misreporting. Between the NSS round in 1999-2000 and 2004-05, the proportion of those reporting themselves as OBCs rose from 36% of the population to 41%—since it is physically impossible for such a growth to have taken place through natural means, the obvious conclusion is many found it worth their while to become OBCs.

Given their relative exclusion on various parameters, once the Census numbers are in, another round of agitations does look likely—why else are the likes of Lalu Prasad and Mulayam Singh Yadav pushing for the Census? In the case of SC/STs, to cite one figure from an analysis based on an NCAER survey of incomes, while they comprise 25% of the population, they account for only 12% of jobs in the 'administrative, executive and managerial' cadre. Assume such data came out of the Census numbers—the Census would report only the caste categories but there are other data, from the NSS, for instance, which give you some details on employment categories. Naturally, there would be a clamour for more affirmative action—industry association CII has already got around 600 members to give data on their employment of SC/STs and the data available so far suggests around 15% of those employed in these firms are SC/STs. But keep in mind, the same analysis of NCAER data tells us that SC/STs also comprise just 14% of all graduates in the country, a pre-requisite for jobs in the 'administrative, executive and

managerial' cadre. Before making a clamour for reservations in colleges, similarly, it is important to keep in mind the proportions who've passed school. The short point is that, once the Census and other data come in, it is important to interpret them carefully.

RURAL DEVELOPMENT

Open up capacities

Rural development, in the context of today's India in which 70 per cent of its population lives in villages, has to lie in the critical core of the socio-economic transformation of the country. Most rural clusters still smart under basic services and resource deficits such as healthcare, education, safe drinking water, sanitation, housing and infrastructure in contrast with semi-urban and urban areas.

The flush of at least 100 centrally-sponsored schemes, with a mammoth allocation of Rs 137,000 crore (2010-11) for anti-poverty and rural welfare programmes epitomises the initiatives towards aggressive and accelerated growth and prosperity of the rural segments. The instrumentality of flagship programmes such as the *Bharat Nirman Yojana*, the National Rural Drinking Water Programme and the *Sarva Shiksha Abhiyan* has the potential to unlock the capacities of the rural economy.

The National Rural Employment Guarantee (NREG) scheme is the world's largest public works and rural employment generation programme. The macro- and micro-planning of rural development must now be fitted into planning from below and connect with popular participation at the tip of the decision- making process.

Participation of the stakeholders and a sense of ownership in the planning are a must of development strategy. Planning should not be imported from above but built on differential area-specific criteria that recognises local capacities, potential catalysts, resource endowment and the needs of the people.

The truth is that even with the myriad of development programmes with massive outlays in place, the benefits have not 'trickled down' fast and wide enough to produce commensurate dividends. What has inhibited the reach of services is widely recurrent complaints about corruption, siphoning off of funds, procedural hassles and political discrimination. Also, a large part of the targeted beneficiaries remain unaware of the programmes.

Keeping this in mind, it was necessary to disseminate information about development programmes extensively, along with the need for a mechanism for receiving feedback from citizens and gauging their responses to the quality and level of delivery of services coupled with robust monitoring, evaluating and corrective systems involving the Centre and the states.

A shift from bureaucratic and centralised planning to decentralised planning needs to be launched. Bureaucratic flavoured centralised planning makes popular participation cosmetic. Democracy presupposes a creative induction of the people and their representatives into a participating mode. The Centre and states should also widen the network of existing social audits and furnish information about allotments and utilisation of funds at all levels from the gram panchayats to the *zila parishads* and the impact of the schemes.

Poor book-keeping, nominal audit certifications must be corrected. This calls for a regular and rigid audit of accounts by auditors and chartered accountants.

However resolute and well-crafted the controlling and monitoring strategies may be, systemic simplifications, zero tolerance to corruption and, above all, ensuring the integrity and commitment of the executing agencies will be integral and determinate to this goal.

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