

FROM THE RINGSIDE

Economic reform begins with the voter

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The proposed restructuring of the Accelerated Power Development & Reform Programme (APDRP) is both timely and necessary. We all know that the financial state of distribution utilities is the Achilles' heel of the electricity sector, and this programme had not gone as far as we had hoped to encourage states to reduce theft or invest in limiting technical losses. States have been slow to use the funds available for investment: more than a few states have less than half of the projects sanctioned in 2002 complete. Only a few states have responded to the cash incentives to cut losses.

The new APDRP programme, with tighter restrictions on funds, and stronger incentives for reform, is expected to be in place this year. One of the best changes to make would be to provide technical outreach to state electricity boards so that they are capable of defining and executing projects to take advantage of grant funds. It is not clear whether it was commitment or capacity that limited states' use of the investment or of the incentive fund, but technical outreach could rule out the capacity excuse. This seems like a sensible strategy to deal with a complex issue that has much larger economic consequences and could be a model for other sectors, since such changes need both Central and state-level policy changes.

But we could do better. The "carrot and stick" approach, used by the APDRP (and countless other inter-governmental incentive programmes, is one of the least subtle strategies. It assumes states are self-contained organisations, motivated by financial incentives.

This approach contradicts the other stream of public debate about the role of states in reforms, the one that criticises state leaders for engaging in competitive populism, lauds chief ministers as bold reformers, and presents various competitive rankings of states' policy environments. It seems to ignore one of the main arguments in favour of federalism, that sub-national governments are closer to their constituents and potentially better able to serve their area's particular preferences.

In short, incentive schemes miss an important potential motivation for reforms: the electoral preference of voters. Some governments do respond to financial incentives. All governments, in some form or another, and some more than others, respond to voter pressure.

The question, then, becomes, "What can the Centre do to activate voter pressure for states to reform?" The last phrase, "for reform" is especially important — the subsidies sagas demonstrate that electoral choice and voter pressure are not always helpful. The longer way to ask the question is: "What can the Centre do to alter the political

catalyst to channel voter pressure toward changes that may have short-term transition costs, but will ultimately improve governance, public services or economic outcomes for a most of their constituents?”

Some possibilities:

- The Centre can both support and demand functional transparency. In the case of APDRP, the programme should not only help states gather data from energy audits, but it should encourage states to publish this data online in an easily understandable format. Subsidy support, budgeted and actual, should also be put online, along with points of reference such as costs of health clinics, teachers’ salaries etc for comparison.
- The Centre can also enable politicians to make credible “pay for performance” bargains with citizens. At least some people are willing to pay for high quality infrastructure: they buy generators and tanked water and so on. State officials should be enabled to provide such services reliably.
- The Centre can support independent creation of state report cards to create competition for better governance and service quality.
- Finally, and most importantly, the Centre can facilitate inter-state learning of best practices, not just Centre-to-state learning. NGOs and international organisations are already using such knowledge management systems.

However, the carrot-and-stick approach should not be abandoned. Sometimes voter interests at state level are different from national interests, and sometimes state governments might need the Centre to act like a heavyweight on unpopular issues. But the carrot-and-stick approach should not be the only tool.

We are missing the motivation if we do not work to activate voter pressure for reform.

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