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REDESIGNING SOCIAL POLICY

BY

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Redesigning Social Policy

Prof. Abhijit Banerjee

It is an honour and a pleasure to be here in this beautiful hotel, in this beautiful room, speaking to this distinguished company, on a stunning day in Mumbai. I apologise for cheating you from the pleasure of being outside.

So what I want to speak about is like a perspective on social policies. It is a good time to do so, as the elections, perhaps for good reasons and bad, bring forth a lot of interest in social policy and also a temptation to make social policy without in essence thinking about it. It is a good time to plant thoughts and that is all I'll be able to do.

I, like most people of my kind, have very limited influence on what actually happens in the world, but I think it is often useful as an exercise to understand that if you had all the political druthers that you'd like to have, what you would like to do. I am going to start with that presumption. Of course, reality often intrudes and not everything or maybe not anything of whatever I am going to propose will become a policy, but it is good to understand where things need to be and how that compares against where we are now.

Just to set the stage, we have a general frame for doing economic policy in India. The frame was mostly designed when India was one of the poorest countries in the world. We came out of a period of starvation and famines, and rightly I think, we designed our social policy around combating these famines. Our private sector was small, and the government, for good reason and often bad, had little faith in it, while the economy was highly controlled and almost closed. So that is the world where we designed our social policy and it is worth reflecting back on where we are now as an economy and how that might change the way we think about social policy.

In that context, where we had starvation and famine as the kind of primary threats, it made sense for the main redistributive tool to be the Public Distribution System (PDS), as it prevented starvation. It made sense for the government to create a whole infrastructure to procure, transport and sell grains, since the private sector could not be relied upon to do so. So this entire Food Corporation of India (FCI) and the entire mechanism that goes with it was set-up, partly

because the government did not expect to procure grains at the point where it was delivering grains because it did not trust the market. Secondly, there was a very serious constraint on foreign exchange and hence, importing was not an option and it was entirely going to be domestic production, which would be then moved from one state to another, and that is what the government would deliver.

It also made sense for the government to provide education and healthcare, and within that to focus on saving the lives of mothers and children, and getting children into school, not focussing much on what they learn, but on the fact that they are in school.

So these were all the right priorities of that time, although I think that I am going to criticise this in my lecture, going forward, but I entirely recognise that it was a time in a place when these social policies made sense. But I think a reset is long overdue.

We are now a lower-middle income country with a host of new problems, and part of the reason why we have these problems, I want to emphasise, is because we have solved the old problems, and therefore there is a new terrain and a new set of problems.

I think, at this point, we have partially recognised the existence of some of these problems, and it is not like what I am going to say is so new and original that you have never heard of them before, as we do have some idea that these problems exist. But I think some of it is quite inconvenient, so it is easy to ignore. There was this central problem that we used to have 30 years ago and we think that we just need to adjust our policies according to the present. However, what I want to argue is that it is really not a matter of adjustment, but rather a matter of reset.

We are in a different place wherein we need to start from a different set of premises and create a framework for social policy that is more responsive to where we are now, and in particular, it does not constitute adding some more schemes. I mean, our base strategy for fixing social problems is to introduce new scheme after new scheme. There are, in fact just in this anti-poverty area, more than 400 schemes, though if you ask anyone in GOI to name them, they couldn't do so. We only know that because the World Bank at some point started counting them and as a result we actually have some sense of what is the minimum list. They do not know every scheme, but they know that there are at least 400. So that is a lot of schemes, a lot of government offices, a lot of small amounts of money assigned to different initiatives, a lot of our

limited governance capacity assigned to it. And I think, that is not where we need to go. I think we need to be picking priorities for now and moving ahead on those priorities.

First, I want to start by assuming that the state capacity is a very scarce resource, may be much scarcer than money. It is easier to throw money at a problem than to throw state capacity, especially because we do not have the mechanism for growing state capacity. We really are much more hobbled in that than we are in growing the economy, because while the economy grows, the state capacity really just stays the same.

Secondly, resources are scarce, in addition to state capacity. We need to raise our tax collection, especially direct taxes. We need to broaden our tax base, as our tax base is roughly the same as it was 25 years ago. The proportion of tax base to GDP, for direct taxation, has not expanded. We are fairly where we were 25 years ago. Although the enforcement has improved, but not nearly as much as we would want it to. Further, the mismatch between what we think should be the tax collection, based on the size of the economy, and what we actually collect remains very large. Given the scarcity of resources, we need to invest nearly 3 trillion dollars in just our cities. So just the magnitude of the resource crunch is massive.

Given all this, the thought I am going to leave you with, but not really elaborate on, is that I think we risk falling into what are sometimes called as the 'middle-income trap', which means that countries grow up to a point wherein they do not grow any further. We are growing very fast but, I am not sure if we know why we are growing very fast. If you look at global measures, you will notice that our human capital is not high quality, our infrastructure is not high quality, our environment is getting increasingly polluted, and we grow despite them; not because of them. I think a part of the reason why we do grow is because we have so much misallocation and distortions that create opportunities for businesses, and we have a lot of entrepreneurial people who take up these opportunities. But once you take that as your starting point, you start worrying that once those opportunities run out, we may slowdown very fast.

India will not be the first country where this would have happened. I think Brazil between 1961 and 1980 was among the fastest growing countries in the world, growing at 9 percent during the entire period, and then it stopped growing in 1980s and really never restarted. Such a slowdown can happen very fast, even over the course of one year and then never restart. Japan is a very similar story, indicating that growth can stop very fast. Although my point is not to

throw the fear into you and all of us, but is to say that we should be grateful for the growth, but we should not take it as given. Therefore, we need to think of fixing our economic structure, not just because it is good for the less-advantaged people, but because we want to keep growing. Now let me come to my main topics.

1. Education

Education has been the place where we actually have achieved some remarkable things and in fact, the things that we did not expect to achieve. In the mid-90s we were still talking about all the children who do not go to school as their parents would not send them, because they were working as child labour. Basically, all children in India, except in some very specific areas, are in school today. All children under 12 are mostly in school, and there is almost no difference between boys and girls. It is now increasingly true that a very large fraction of them go on to be even in secondary schools. This is a very good news and I do not want to say otherwise.

But I think they are not learning much. More than half of the 5th graders are in 2nd grade level in math, and likewise in their vernacular language, and sadly, this does not improve. Those who fall behind in Class 2 are further behind in Class 5, and even further behind in Class 8. So it is a very stable trajectory of falling behind.

Our PISA (Programme for International Student Assessment) scores, which is the one internationally compatible test that we did participate in, is so bad that the Government of India blocks participation in it, and then complains when the World Bank says that India's human capital is worse than that of Bangladesh.

I think the problem is that the diagnosis in itself is fundamentally wrong. We have the Right to Education Act, which is an obvious diagnosis of what the problem is and what its solution should be. It says that we need better infrastructure, better paid teachers, and more teacher training, and this is what is going to fix our education system. However, none of this appears to be true. Our teachers are among the best paid in the world, relative to per capita GDP. Teachers are paid 50,000- 60,000 rupees and it is very hard to find such jobs, and these are wonderful jobs with low work hours, good pay and good benefits.

There is a large scale field experiment wherein certain schools were randomly chosen and their teachers' salaries were doubled, but the resultant outcome was that it had zero impact on the test scores. So I am also not optimistic from that point of view. There are many studies on improving infrastructure in school and doubling teachers' training - studies which are done very carefully to produce credible results - and the first order fact is that there are no impacts on learning outcomes.

An alternative diagnosis, is also what you hear a lot in India, that we need more incentives. In essence what is happening in India is that 50% of children in many states are now in private schools. Interestingly, one well established factor in private schools is that running a private school is much cheaper than running government schools. The amount of money per child that is spent in a government school system is something between 2 to 5 times of what is spent in a private school.

There is a study in India, in Andhra Pradesh - which is one of the states with the school system working relatively well - wherein a large random group of children were given vouchers to go to private school, and since they were chosen at random, those children were compatible with other children. The study looked at what happened to the test scores and the answer is, nothing. Private schools are just as bad as government schools, but since they are cheaper so maybe that is one reason to favour them.

The Right to Education Act is exactly that, which is like they do not like the idea of private schools being cheaper, and they want the private schools to pay teachers more and get more qualified teachers and build more infrastructure in the schools; none of which have promised to do anything to the quality of teaching, and it will make the private schools go out of business. I think, therefore, that the Right to Education Act is an attempt to undermine this move to private schooling, which has partly been successful. I think nearly 10,000 private schools were shut down because of this Act, because they couldn't meet the infrastructure requirements. However, there is no particular reason to believe that this Act is going to solve the problems in the quality of education system, and I think, it is rather going to do more damage to it.

We have done a lot of work in the Abdul Latif Jameel Poverty Action Lab and have found that the real problem is the colonial model of teaching. We have an absolute standard set by the syllabus, irrespective of the child's background and the teachers' capacity to teach it. Children

get lost, and once lost, they are offered no help to catch up. If you ask the teachers why they do not help these children, they say that these are 'weak' children, implying often that these children are hopelessly lost.

Having an absolute learning standard in school, where the syllabus is God, in a context where many of the children are first generation literates, whose parents are not in the position to help them learn better, these children tend to fall behind the syllabus. This colonial model of absolute learning standard does not help us in improving the quality of learning in education.

In 7 states, in a large scale field experiment, we found that if taught at the right level, meaning that if you teach the child what he needs to know, children catch up very fast. The reason why we do not improve our education system is because we decide not to do it, and not because it is not possible to do it. These experiments have been done by volunteers who have gone to these schools and taught for 3 months, and we observed that the children made more progress during the experiment, than they have made over two years.

So the magnitude of this distortion is mind-boggling, because we have an easy solution that we do not implement and then we work on the kind of things that actually do not help.

Just to reassure this, there is this evidence from Delhi consisting of preschool children, seeking to know whether these children can solve the kind of math problem which does not require much knowledge, kind of like an instinctive math. We found that these children in the slums of Delhi performed just as well as the children living around Harvard University, who are children of the Ph.D. students. So our children do not lack talent, they lack something else, and what they lack is a school system that works with them.

I think we somewhat know the answer, or at least part of the answer, which is that we remove all the input requirements in the Right to Education Act and we need to replace it by an 'Outcome Based Regulation', wherein the focus must be that all children should have some basic skills. Until Grade 6, there should be a focus only on basic skills. We also need to move to an approach of shrinking the government schooling system. For instance, Madhya Pradesh is shrinking schools now, wherein they are taking schools and moving children to other schools nearby. Although some children are dropping out as a result, the quality of the teaching is improving. And once

you recognise that the government school system is shrinking, we need to downscale it by cutting back on the hiring and put more money in the secondary schools, where I think, we are short of good teachers, especially in the Science field. So I think that particular programme will certainly help.

2. Healthcare

We are heading towards an NCD Crisis- A Non-Communicable Disease crisis. And this is partly because people are living longer now. The first order predicate of non-communicable diseases like cancer, is that you live till the age of 55 or 65, and that is what is happening.

On one hand it is good news that people are living longer. But then, it is also true that only very few of us have a good diet and also very few people exercise. It is also well known that we have among the world's biggest burdens of diabetes and blood pressure and a bunch of other lifestyle diseases, which are going to be extremely expensive to deal with. These will not only reduce productivity, but will also make people spend lots of money and effort. Childhood malnutrition interacts with this. It has been found that people who have malnutrition as children and get nutrition in their later life, are more prone to get some type of lifestyle diseases. So the fact that you start by being undernourished as a child, actually hurts you even in the longer run. Further to this, the problem is that antibiotics resistance is rising.

Given all that we are facing, it is a bit odd that our focus right now is on tertiary care. The Ayushman Bharat scheme, which is the flagship scheme of this government on Healthcare, is entirely about tertiary care, which is not a bad thing, as tertiary care is indeed very expensive. I mean, if once you have to be in hospital to get a kidney transplant, that is going to be very expensive and some way of reducing the cost is a good thing, which is what the scheme is about. However, it is not going to solve the problem of health, but going to solve the problem of spending.

I think this is not going to improve health. What will improve health is in fact, better primary care and that is where we hit a real constraint. The problem is that most of our healthcare is delivered by people who are practitioners of health with no medical qualifications or some qualifications that do not actually permit them to practise.

We have numbers to show that on an average, every village has nearly three healthcare providers with no degree, and one in five villages has one person who has an MBBS. So most villages do not have a healthcare provider with an MBBS and most of these people are practising medicine illegally. There is no way to engage with them because they are not supposed to exist and yet when you go, the only person you really consult is one of these people. The only person who can check and identify a problem in you before it gets too dangerous, is one of these people. So if you do not talk to those people, you are essentially cutting off an arm which will reach you out to the right people.

Given that, I would say we should firstly recognise the existence of such practitioners, and regulate them with frequent tests of competence. If they are doing a bad thing, we can try to shut them down. If there is a clear attempt to distinguish between them, the public will be more responsive, because we have evidence to show that the public is willing to pay more to a practitioner who is more trained, and public do value them more. Hence, it is important to test these practitioners, train them and make them more competent, rather than pretending that such illegal practitioners do not exist. Because if we pretend that they do not exist, we cannot actually get them to do anything. Also, it is important to deal with antibiotic resistance, as it will kill us eventually. We should not be able to walk up to a pharmacy and buy the latest set of antibiotics, without proper prescription, but we know we have all done that. And I think it is important for us to be able to stop doing so, in order to deal with antibiotic resistance.

3. Jobs

We'll move ahead to our next topic now, which is jobs. I think this is something where everybody will agree, which is that we are not creating the kind of jobs that we need.

You talk to people in the industry, and you will hear them say that 'we are not getting the kind of people that we want'. In fact, they even say that we are a 'labour scarce economy', as it is expensive to get a good worker. But how could that be? How could labour costs be so high, even in white collar jobs? White collar jobs in our country are the kind of jobs with very little employment protection. Labour laws apply mostly to blue collar jobs in our country, while we do not have very restrictive labour laws for white collar jobs. I agree that labour unions in some organisations may have imposed some rules, but overall, the protection for white collar employees is pretty weak here.

So how could it be that we are both labour abundant and labour scarce?

We talk about Make in India, we talk about getting into the global supply chain, rationalising labour laws, improving infrastructure, reforming the banking sector, improve the ease of doing business, etc. I think these are all good things to do for our country. However, it does not explain why there is a perception of labour shortage. We have to somehow square the fact that these are all supply-side factors, and these will make a demand for labour go up. But why would people feel that there is not enough labour?

Two things can explain this; one is that labour force participation among women is low; in fact, it is among the lowest in the world, and is falling. That is one thing that is happening. While the second thing is that, among the people who have more than 10 years of education (meaning 10 years in school), at age 26, 20% of them are not working. That is not because there are not enough jobs, because almost everybody (particularly males) with less than 10 years of education is working at the same age. Which essentially means that those without 10 years of education, or those who have less education are working, while those who have more than 10 years of education are not working. However, interestingly, at age 32 they are all working, as our unemployment rate among males of age 32 is only 2%. So everybody is working at that age.

It cannot be that for men in their 20s there are no jobs, but it is because they do not want the jobs. It means that we are offering them the jobs that they do not want. The part of the labour supply problem itself is that we are offering people the kind of jobs that they do not want. Firms, on one hand, want to get trainees, who will come and learn on the job in their 20s, but somewhat educated people cannot get there, because they do not want that job. As a result, turnover is high, workers' attitude is bad, and training is wasted.

We evaluated a training programme where there were 550 trainees who were enrolled in a government subsidised programme and were trained. At the end of 6 months of the programme, only 37 of them were working at the jobs that they were trained in, which is about 7.5% of the total people trained. So these training programmes fail because, when we asked them 'why don't you want the job?' they said 'we do not like this job'.

That is why our labour is expensive. The source of the problem is that everyone wants government jobs. We asked people what jobs you would like, in a survey in Rajasthan, and

essentially the median answer is that they all want government jobs. The ideal of what a job is, is a government job, as it is well-paid and cushy. This is why even those who could become entrepreneurs also do not go ahead with that.

28 million people, i.e., 2.8 crore people applied for 90,000 low-level railway jobs. These kind of numbers you would have seen all the time; like 300,000 people applying for 27 jobs etc. and this is because, it is by far the most attractive job prospect. The common idea among people is that they would rather take competitive exams and not engage in the labour market, and then after 30, when they are basically not eligible to take these competitive exams anymore, or have taken it too many times, they start taking up jobs. Therefore, they are employed.

This is a labour supply problem that we have. At the same time, we also have a labour demand problem, like I said. We are not creating the kind of well-paid jobs that we want. And even normal jobs are not about to grow that fast, I think.

Let me make a small point about trade, which is that labour cost is only a tiny fraction of the delivered cost. So when you look at a toy that is sold in the US for US\$ 10, only about 50 cents of it is the labour cost. So if we cut the labour cost by, say, 50% to 25 cents, how much would I save on the price of the good? 25 cents. So you are now a new supplier, going into the world market trying to sell something for US\$ 9 and 75 cents, instead of US\$ 10. I do not think our companies can become unusually more competitive in low-skilled manufacturing. I do not think we're going to massively expand our manufacturing exports like this. However, where we can make more progress is in the domestic market. I do think that the idea that we are going to become the next China, in terms of being an exporter, seems unreasonable.

Given all this, I think what can be done for creating jobs is that if we could create some special economic zones that are not boondoggles for the real estate sector with plug-in access to land, transport, and environmental clearances etc., it would be a good idea.

Another suggestion I would make here is that, we need more government jobs which are much less cushy. Like we could start an apprenticeship programme for government jobs, and make it mandatory to do 5 years of apprenticeship in all government jobs. I think it will change the attitude towards government jobs and will also free up the labour market, as they cannot just take the test, they have to do the jobs. Most importantly, this will get them started with a job,

where they get the benefit of having a job experience, and are going to work longer. Their work life could go up by 20%-30%.

Finally, I suggest that there be a set limit to the number of government jobs one can apply for, and also set a time limit to the application, like for 2 years one can apply for the government job, after which no more attempts will be allowed. This will put a stop to people spending their entire 20s in trying to clear government job tests. This will also reduce the cost of conducting these exams for the government and make it possible to hire many more people.

4. Social Protection

I'll be now continuing on another important aspect of social policy, which is social protection. Our country has two main social protection programmes i.e., NREGA and PDS, both of which are targeted towards the poor. However, what these do not target is an increasingly large set of population.

While one of the examples of our success is that only a very small part of our economy consists of very poor people, however, the people who are subject to very large shocks but are not very poor form a larger part of our economy. There is a lot of discontent among people who are not very poor, especially if you see all the farmers' movements, you will see that most of them are farmers with some land, who have some big economic problems.

We must start with recognising that these people are also legitimate claimants of social protection, or else we will only get very many discontent people protesting for being included in different government programmes. So we need to start by recognising that these are real problems, and we need to do something about it.

The current response to these are piecemeal bailouts, loan waiver, expanding the reservation system, inefficient subsidies with disastrous consequences; power, fertilisers and water sectors have a real crisis now. If you look in Punjab, you will see that they now stop the people from cultivating rice till the rains come and there is a huge battle that is going on there, as the water table is very low. There is also this problem of stubble-burning in these states which pollutes the entire North India and somehow we are not able to deal with this. These are all issues of where we are, because we are not only unable to deliver to people, we are also scared of taking

something away from them. I think there are lots of shocks beyond individual control, which we need to be insured against, in some form or the other; the shift in world prices, weather and other man-made shocks.

I think our inflation targeting regime right now is such that if petroleum prices go up, we then have to find something to make prices go down. And how we do it is by hitting our agriculture sector. We ban exports, we import goods even if there are large surpluses, and we hit our agriculture that way. I think it will only create more discontent, which we will not be able to manage.

Right now we have a 'Fasal Beema Yojana' which does not seem to be working very well, partly because it is not very well designed, and I think it is quite hard to do, as it is difficult to find who is the farmer, how much is he going to produce, how much insurance does he need for that etc.

So, I propose a new social compact wherein the government acknowledges that it imposes large costs on specific groups in pursuit of overall efficiency, and sets up a mechanism for identifying such groups based on where they are located and what they produced, as geographical identification is much more robust than individual identification. For example, if there is a block that produces a lot of sugarcane, and then if there is a policy that makes sugarcanes less profitable, we compensate them. We can create a national body for such compensation.

5. Urbanisation

My last topic for the day is urbanisation. Our country is urbanising extremely fast, partly because we did not call it urban earlier. A lot of our urbanisation is in villages of 12,000 people in UP. That is a village, whereas there is no city in the state of Montana in the US with that much population. We called them villages, therefore, we were not urbanising. But in fact, now what we are getting at is cities with really bad infrastructures, cities with no governance mechanisms for an urban agglomerate and cities that do not have enough resources to build infrastructure.

We have many small cities in the making, which have very bad quality infrastructure and that is something that is a disaster in the making, because once you build a neighbourhood for the

native population without good roads and other infrastructure in them, later you cannot build roads when the city expands because you are stuck. So I think we need to think very hard about the way we are doing urbanisation, as the current approach is almost in neglect.

We talk about resources which we do not have and the political impossibility of implementing the 74th amendment, which is the implementation of the Panchayati Raj in cities. We are really facing disaster in fact, with unlivable cities, improper trash disposal and no water supply and sewer systems. The villages that are turning into cities do not have the city infrastructure that it requires.

I think the 74th amendment is key. We need city managers who are real professionals and can manage these emerging cities. We need resources and control to deal with issues. We need cities to borrow within a federal framework and sell land strategically to raise resources and collect real estate taxes. This is the way cities work across the world. There are certain set of ground rules which we are not following, and it will lead to problems later.

To conclude, I would like to say that we have done well as a country overall, given the many constraints that we have faced. The reason why many villages are turning into cities is also because we have done well, because people are now buying cars in these villages. But while there are cars, there are no good roads for these cars. Likewise, there are so many new lifestyle diseases, partly because now there is a lifestyle which was not there earlier, and people are not starving anymore. But these are the issues of the present and we need to deal with them now, as we have no choice but to deal with them.

Thank you!



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