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ESCAPING THE MIDDLE-INCOME TRAP

The Imperatives of State Strengthening

RAKESH MOHAN

CSEP RESEARCH

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Designed by Mukesh Rawat

ESCAPING THE MIDDLE-INCOME TRAP

The Imperatives of State Strengthening

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**I would like to thank Shishir Gupta, Nandini Agnihotri, and Divya Srinivasan of CSEP, who helped me in the preparation of this lecture.*

This is a slightly edited version of the PR Brahmananda Memorial Lecture delivered at the Reserve Bank of India on February 22, 2024.

Contents

How Have Countries Escaped the Middle-Income Trap: Can it Still be Done?	5
Is India in a Middle-Income Trap?	7
Key Challenge: Transformational Structural Change Through Employment Generation	7
How to get out of the Middle-Income Trap	9
The Imperatives of State Strengthening for Escaping the Low Middle-Income Trap	13
What Should we do: Key Areas for Action	14
Education	14
Health	17
Governance: Need for State Strengthening	20
Parliament: It Needs to Work More	20
Public Administration: Still Steeped in the Antiquated Colonial Structure	21
Regulatory Institutions: Further Strengthening Needed	23
The Judicial System: Justice Delayed is Justice Denied	25
We have a Difficult Road Ahead: But Have no Time to Lose	27
References	29
About the Author	31

I feel truly honoured by Governor Shaktikanta Das for inviting me to deliver this sixth Brahmananda Lecture. My research on the previous lectures that have been given at the Reserve Bank of India (RBI) shows that I am the first former governor or deputy governor to have been invited to give one of these lectures, so I feel truly blessed and privileged. Second, interestingly, I am only the second India-based speaker to deliver such a lecture. Unfortunately, my friend, the redoubtable NK Singh, beat me to it by just a couple of years.

Professor Brahmananda, a great economist and thinker of our time, was one of the most outstanding teachers and scholars of economics in India. The inaugural lecture in the series in honour of Professor Brahmananda was delivered by one of his most distinguished students, Lord Meghnad Desai. He outlined nearly two centuries of the economic history of India and identified the common link in the three different phases of India's 'tryst with development'—viz., under colonial rule, the post-Independence planning era, and liberalisation. So, I would like to concentrate today on the future, rather than the past, since he covered it all.

By all accounts, he was among the more prolific economists of our time, having written 30 books and more than 600 scholarly articles. During the 1950s, when development thinking was almost united in pursuing the ideas of planning and import substitution, he was among the very few major economists who did not agree with this predominant view and did not hesitate to say so. His opposition was not ideological but was rooted firmly in classical economics. Among his many scholarly works, the most relevant for me was his monumental monetary history of India in the 19th century, which was commissioned by the Reserve Bank. It is, therefore, appropriate that this lecture series was instituted in his honour.

As might have been expected of me, and what might have been consistent with Professor Brahmananda's life of scholarship, I should have given this talk on some aspect of central banking or monetary policy. But I have chosen a completely different topic. This is because there is little I can say on the current issues of the day in this regard. Governor Shaktikanta Das has steered the RBI ship through the troubled waters of the last few years so skilfully that there is little I could add that would be relevant or helpful.

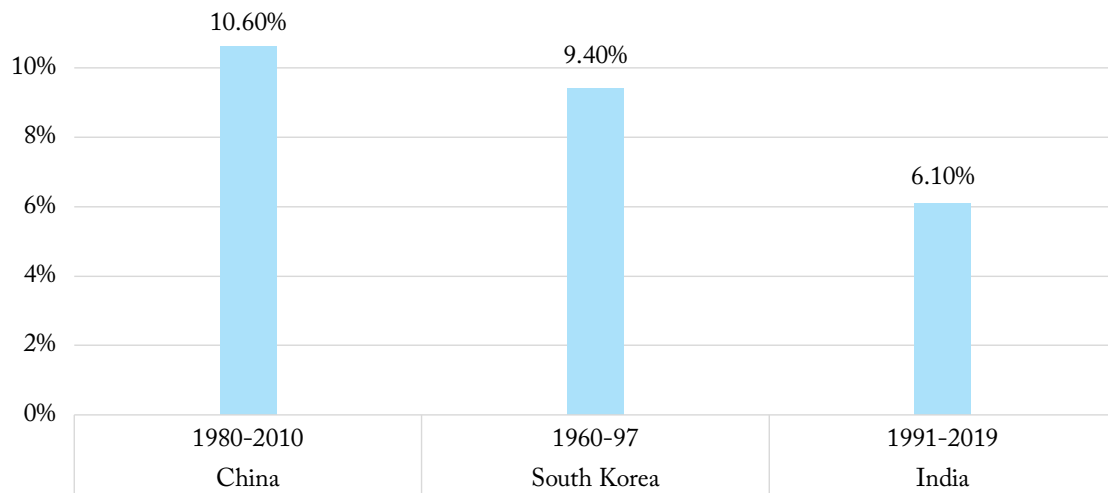
Instead, I have chosen the topic, "*Escaping the Middle-Income Trap: The Imperatives of State Strengthening*", since I believe that the next phase of rapid economic development of the country needs a paradigm change in economic strategy once again, after the successes that have been achieved over the last three decades or so.

How Have Countries Escaped the Middle-Income Trap: Can it Still be Done?

The concept of the middle-income trap was introduced in the mid to late 2000s by my good friends Homi Kharas, Indermit Gill, and Harinder Kohli—all World Bank staff members at the time (Gill & Kharas, 2007; 2015)—and refers to a wide array of countries falling between around US\$1,000 to US\$13,000 per capita GDP (in 2023 US dollars); the

upper middle-income cut-off point is US\$4,255, and the high income, US\$13,205. The context was that only a few countries had been observed to graduate from middle-income status to high-income levels in the previous three decades or more: namely the well-known Asian tigers—Japan being the first Asian nation to become a developed country, followed by South Korea, Singapore, Taiwan, and Hong Kong—and a few others elsewhere. And now China is on the verge of it, at a per capita GDP of US\$12,500. Other countries that had exhibited high growth for extended lengths of time in both Southeast Asia and Latin America stagnated after reaching the middle level and were not able to ascend higher.

Chart 1: Average GDP Growth Across Countries in Their High Growth Years



Source: *The World Bank*.

If the general pattern of growing economies from low levels is one of regular growth on a continuous basis, we might expect all, or most, countries to graduate to high-income levels over time. There would be no middle-income trap. Instead, most countries “have bursts of growth followed by periods of stagnation, or even decline, or get stuck at low growth rates ... They are caught in the middle-income trap—unable to compete with low-income, low-wage economies in manufactured exports and unable to compete with advanced economies in high-skill innovations ... Put another way, such countries cannot make a timely transition from resource-driven growth, with low-cost labour and capital, to productivity-driven growth” (Kharas & Kohli, 2011, p. 282). So, the key problem faced by trapped middle-income countries is their inability to ascend to the next level of growth, after having taken advantage of low-wage labour providing competitive labour-intensive manufacturing exports, or exhausting their resource-based comparative advantage in exports. They were deemed to make discontinuous strategy shifts to ascend to higher technology levels through innovation and had reached the limits of achieving higher productivity through the reallocation of labour and pursuit of business as usual.

The solution then for such countries is to make a significant change in economic strategy towards technology development and other activities that are much more focused on total factor productivity growth rather than factor intensive or factor expanding growth.

Our situation is somewhat different since we have reached low middle-income levels but are yet to graduate to upper middle before aspiring to become an advanced economy. Our stated aim is to reach high-income status by 2047, which will mark a century of independence. Furthermore, some of the other conditions characterising the middle-income trap do not yet apply to India. It is a low middle-income economy, which is yet to exhibit adequate structural transformation. It still has a large rural agricultural labour force that needs to transition to non-agricultural, non-rural, higher-productivity economic pursuits.

This requires a major change in gear in development strategy and governance.

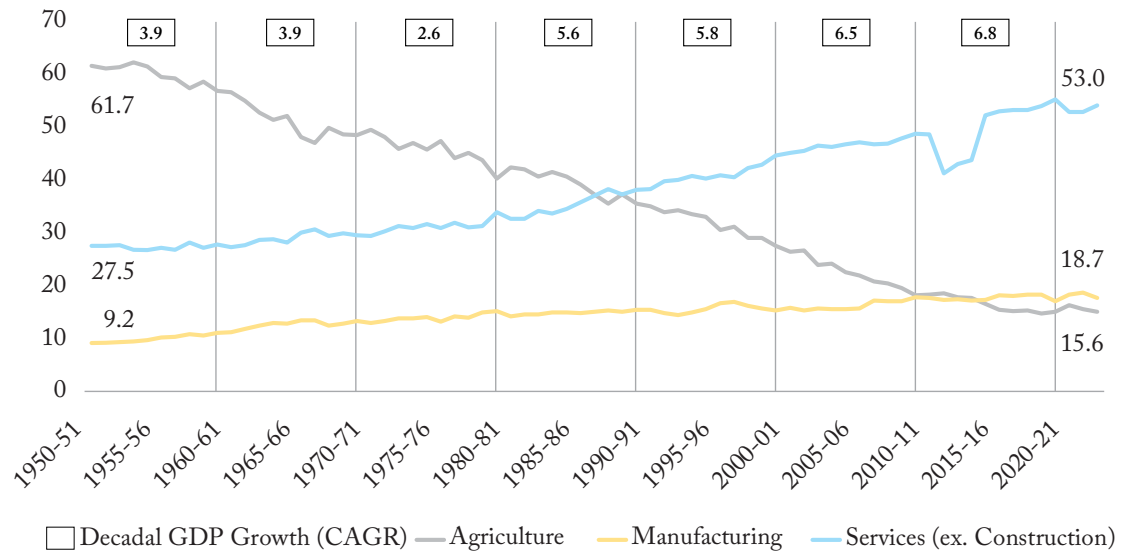
International trade has played a key role in helping countries transition from low to middle, and finally to high-income levels. Given the shifts taking place in the slowing global economy, with slowing global trade, protectionism in the garb of “new industrial policies”, and policy imperatives to address climate change, it will be even more difficult for India to escape the middle-income trap, and for other countries to graduate from upper middle-income to high-income status.

Is India in a Middle-Income Trap?

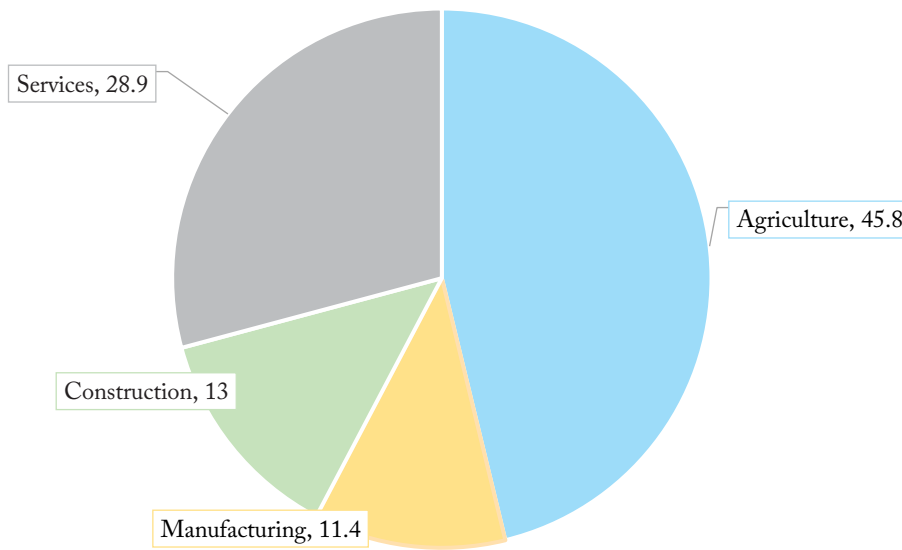
India has exhibited relatively continuous growth for over seven decades to reach low middle-income levels and is on the point of escaping from widespread poverty. But the country has also had bursts of growth followed by some stagnation and again another burst. The first burst was for about a period of 15 years after independence, following 100 years or more of stagnation. Then followed some stagnation, or slow growth, until the 1980s. The major strategic change in economic policy in the early 1990s led to another burst of growth lasting more than two decades. There has been another slowdown since the early 2010s, though it cannot be characterised as stagnation. But it could be an indicator of the difficulties that countries face in their effort to ascend to the next level—the upper middle-income category.

Key Challenge: Transformational Structural Change Through Employment Generation

At independence, agriculture accounted for almost 55% of GDP and over 75% of employment. Whereas its share in GDP has fallen to 16–17% now, as expected, almost 45% of total employment is still dependent on agriculture (Periodic Labour Force Survey, 2021-22), leading to widespread palpable agricultural distress. Growth impulses have not been transmitted adequately to agriculture, though the green revolution provided a significant productivity push to the agricultural sector in the 1970s: the time has again come for another transformative push.

Chart 2: Sectoral Share in Gross Value Added (India)

Note: Share of GVAs calculated at 2011-12 base year, constant price. Boxes show the decadal GDP Growth Rate (CAGR).
Source: RBI.

Chart 3: Sectoral Share of Employment (in %)

Source: RBI.

The most difficult issue facing India is the grossly inadequate generation of quality employment in non-agricultural sectors that would enable both the faster movement of labour from low-productivity agriculture to higher-productivity activities and offer opportunities to the increasingly educated urban labour force. This has been particularly exacerbated over the past 15 years or so when there seems to have been almost no net generation of jobs (McKinsey Global Institute, 2020).

Indian employment data are notoriously difficult to interpret. One reason is that a large proportion of employment in both urban and rural areas can be classified as

informal. Given the simple fact that the lowest-income people cannot afford to be unemployed since they need to be at least partially employed to make ends meet, measures of unemployment can be quite misleading. There is also a great deal of self-employment in the country at low-income levels, along with some female employment that is not remunerated. The existing underemployment is difficult to measure. So, the perception of severe employment problems in the country is perhaps best appreciated by looking at some more informal data rather than the more systematic information compiled through household surveys and the like.

It has been reported that between 2014–2015 and 2021–2022 there were a staggering 220 million applications for just 0.7 million central government jobs advertised, with more than 20 million applying each year (GoI, 2022). For example, in 2022 itself, more than 12.5 million aspirants applied for 35,000 positions in the railways' non-technical popular category (Dastidar & Siddique, 2022). About a third of these posts required a minimum of class 12 qualifications. As part of the current discussion on rampant leaks of examination papers, *The Indian Express* (February 6, 2024) reported similar data on applicants and posts in state governments: over five years, a total of about 14 million people applied for 100,000 relatively low-level jobs by taking the respective state-level examinations. Just last week, it was reported that about four million aspirants applied for just 60,000 police constable jobs in UP (*The Indian Express*, February 18, 2024). One can find innumerable similar examples to illustrate the difficulties of people finding adequate employment.

Furthermore, the overall labour force participation rate (LFPR) in India has hovered around 50–57% (Press Information Bureau, 2023), which is lower than the global average of 65%. Even in other emerging markets and developing economies, the LFPR is significantly higher than in India: Vietnam at 78%, China 76%, Indonesia 65%, and Bangladesh at about 60%. In particular, the LFPR of women is much lower than in comparable countries. Apart from open unemployment, the low LFPR implies a significant degree of underemployment.

The truth is that there is a vast reservoir of underemployed resources in the country waiting for productive opportunities. I believe that the employment situation is, therefore, dire and should be seen as the number one policy issue for India to not fall into the middle-income trap.

How to get out of The Middle-Income Trap

To get out of the middle-income trap and accelerate India's development transformation, there is no alternative to adopting a policy regime that emphasises rapid quality employment generation. How do we do this?

Overall, industrial policy must shift to the encouragement of industrial expansion focused on labour-intensive manufacturing and corresponding exports. In contrast to Southeast and East Asian countries, India has not expanded its manufacturing base by specialising in low-wage, labour-intensive manufactured exports. Instead, some of its

manufactured exports are in middle-skilled, middle-technology engineering sectors such as the automobile industry. It has also leapfrogged into higher-skilled, information-technology-based service exports.

A whole set of coordinated policy directions are necessary to accomplish this, including a full set of factor market reforms that will involve a great degree of process, consultation, and consensus-building, along with specific programmes to promote widespread labour-intensive manufacturing exports, along with quality improvement all round through greater technical competence.¹

So, contrary to the usual problem of the middle-income trap, where countries need to graduate out of low-wage, labour-intensive, employment-generating manufacturing, ironically, to get out of the low middle-income trap, India must get into these activities. India's low middle-income trap issues are perhaps sui generis.

At current income levels, the Indian market is not large enough to generate the magnitude of demand needed for fuelling such manufacturing growth on a sustained basis. It is on this basis that former Governor Raghuram Rajan has recently argued eloquently that India has missed the labour-intensive manufacturing bus and needs to concentrate on high-wage/high-skilled/high-technology service jobs.

I clearly disagree with this view and believe that there is no need to choose between the low-wage, labour-intensive manufacturing path and further strengthening of India's competence in the information technology industry-based, high-tech service exports. Both have their own place in India's economic development, but we need to understand that the high-tech service sector approach by itself will not generate the magnitude of quality jobs needed for the large-scale reallocation of labour from low-productivity agricultural to other pursuits. If at all, it provides us with two engines to accelerate the growth process!

My point of departure is that all these problems require collective action: they cannot be tackled by the private sector by itself. Hence the theme of this lecture: "*The Imperatives of State Strengthening*". It is the state that must resolve to supply all these public services at all levels.

First, the demand for the traditional labour-intensive manufactured consumer goods, such as apparel, textiles, toys, footwear, other household goods, furniture, and the like, is nowhere near saturation in the world. I often characterise such goods as those available in any large Walmart store in the United States, a large proportion of which are manufactured in different countries in Asia. China, the whole of South Asia, and ASEAN countries combined have a population of about four billion. Their average per capita income is around US\$4,000–US\$5,000, ranging from about US\$1,500 to US\$12,500. Although there are some doubts about the rate of the region's continuing

¹ I have provided broad policy directions in this regard in Mohan, R. (2019). *Moving India to a New Growth Trajectory: Need for a Comprehensive Big Push*. Brookings India Research Paper No. 072019. Brookings India (<https://www.brookings.edu/wp-content/uploads/2019/06/MOVING-INDIA-Final.pdf>); while Panagariya, A. (2020). *India: Accelerating Growth, Creating Well Paid Jobs for the Masses*. *India Public Policy Review*, Volume 1, No. 1 (1 August 2020), has more detailed recommendations.

growth prospects, it is not unreasonable to expect that average annual GDP growth in the region as a whole could be about 4–5% over the next decade or two. Such average growth, spread over four billion people, constitutes a huge reservoir of expected demand for consumer goods for at least a couple of decades. This incremental magnitude of demand would probably exceed that exhibited by North America and Western Europe during the three decades of high growth of Southeast and East Asian countries from the 1980s to the 2000s. So, there are a lot of buses left for the Indian manufacturing industry to catch (and make) in the years to come. We will simply need to turn our attention towards the East much more than we ever have in the past. The government as a whole must align its economic strategy in this direction.

Second, India remains a low-wage economy with a reservoir of surplus labour that continues to be trapped in low-productivity economic activities in both rural and urban areas. So, its problem, unlike other economies that may have encountered the middle-income trap, does not lie in wages becoming too high to compete in labour-intensive activities, nor in the lack of surplus labour waiting to ascend to higher productive economic activities. Furthermore, the female labour force remains a highly underutilised resource to be engaged in productive economic activities. This involves major changes in government policies and societal attitudes all round.

Third, with the economic reforms initiated in the early 1990s, India finally caught up with the prevailing global, predominant thinking on development strategy: an open-economy, market-oriented framework. The economy ascended to a higher growth path of about 7% annual GDP growth over the following couple of decades. Industrial and export growth accelerated, along with a comfortable and stable external sector; and poverty reduced significantly. This was fuelled by higher savings and investments, which reached their peak in the later 2000s. Both have fallen since in the following decade, leading to somewhat slower growth, though it is still higher than most other major economies. Again, this problem needs new approaches to stimulate both savings and investments to return to previous high levels.

Fourth, with slowing investment growth, the manufacturing sector has been decelerating. Whatever industrial growth is taking place is not generating quality employment for the increasing Indian labour force since it is largely focused on capital-intensive industries, as I have described above; and the service sector by itself is not adequate to fill the employment gap, although it will remain the largest sector in the Indian economy.

Fifth, the generation of jobs within the service sector can be upgraded to higher quality and productivity levels. For example, tourism has begun to boom at all price levels, from the popular low-cost segments to the ultra-luxury segments. But there is great room for upgradation of service quality levels across the board through directed training programmes. There are almost no well-trained guides available at our many historical and archaeological sites; whereas there is no dearth of private transportation services, quality public transportation in these tourist locations is almost absent. There are many other service areas that could do with similar upgradation and expansion of quality employment. All would need collective action to spur further private sector activity.

Sixth, because of the low growth in non-agricultural employment, the rate of urbanisation in India has also been relatively slow. One of the most unusual characteristics of Indian development over the last quarter-century has been the stagnating share of urban NDP. After growing continuously from the early 1970s—from about 38% to 50–55% by the turn of the century—this share has stagnated at the same level since then. The usual process is that economic development is accompanied by continuous structural transformation towards urban economic activities, implying continuing growth in the share of urban GDP.² So, India's record in this respect may be unique in the history of development and constitutes significant evidence that the economy is stuck in a lower middle-income trap (Mohan, 2024, forthcoming).

Consistent with this, contrary to common perception, the rate of rural-urban migration in India has been low right from the 1950s, accounting for not much more than 20% of urban population growth. This is perhaps because the quality of life in our growing towns and cities leaves much to be desired. A large part of our cities and towns are devoid of basic services such as adequate housing, clean water and sanitation, and transport, apart from poor access to health and education opportunities. The generation of high-productivity manufacturing and services activities in urban areas also requires efficiently functioning urban systems that attract higher-skilled people to the city to innovate and prosper.

Overall, the existing institutions responsible for urban management are not equipped to deal with the emerging challenges of urbanisation: they need an overhaul. Here also, a great degree of process is involved so that there is much greater participation in urban policy, planning, and management at the local government level. Efficient labour-intensive industry requires well-functioning cities that provide hospitable environments for their residents in terms of shelter, transportation, public services, safety, public spaces for recreation, abatement of pollution, and the like so that private industry does not bear such costs. So, along with a renewed focus on human development, our urban development policies and governance need a total overhaul.

Seventh, for ensuring productivity improvements in all aspects of activities in the country—be it in the production sphere of agriculture, industry, or services; or provision of public services such as public health, medical services, and education; or investment in infrastructure—there is a great need for emphasis on enhancing technical competence all round in the private sector and government alike.

A unifying theme underlying the major modernisation effort undertaken after independence was an emphasis on the need for development of a scientific temper in the country across all activities. It is perhaps ironic that, although there has been a proliferation of new higher education institutions at all levels, there has been much less attention given to the promotion of science and technology and technical competence over the last couple of decades. Sustained growth will require much greater investment in science

² National Statistical Office, for 1970–1971 to 2011–2012. And 2011–2012 to 2019, from their ongoing work by Shishir Gupta and Ashley Jose, colleagues at CSEP. This has been brought to my attention by them.

and technology in all fields and greater recognition that the functioning of government itself requires much greater technical competence.

The lack of emphasis on research is indicated by the low level of R&D expenditures in India compared with other countries. Indian expenditure has stagnated at between 0.75% of GDP in the early 2000s and about 0.6% now. During this period, China has almost doubled its expenditure on R&D from around 1% to more than 2%; South Korea is now exhibiting an expenditure of 4.2% of GDP, which is the highest in the world. The lack of interest in R&D has been evident in both the public and private sectors. There had been an expectation that after the opening of the economy in the 1990s and the increase in competition, the private sector would be incentivised to give much greater emphasis to R&D and technology development. This has simply not happened.

The building blocks of an institutional framework for enhancing the quantity and quality of education in science and technology have been laid, in principle. The number of Indian Institutes of Technology (IITs) has increased from 5 to 23 in recent years, and seven new Indian Institutes of Science Education and Research (IISERs) have been established. It is reported, however, that these institutions are encountering significant difficulty attracting faculty of the right quality. There is a high level of vacancies in each of these institutions.

This is too large and complex an area to address in this paper (Forbes, 2017). Suffice it to say that the prestige of science, scientists, teachers, engineers, and technocrats needs to be restored. And private industry must be sensitised and incentivised to invest much more in R&D and technology development in their companies: a PLI-type scheme encouraging technology development in the private sector is needed, perhaps to replace the current scheme. Similarly, programmes must be developed for enhancing technical capacity in all governmental and public sector organisations delivering infrastructure and other investment and services.

Although India is still at the low middle-income level, the above facets of our development journey indicate that we may be exhibiting some characteristics of the possibility of falling into the middle-income trap. So, we must change gears in our development strategy for the next stage.

The Imperatives of State Strengthening³ for Escaping the Low Middle-Income Trap

Why are we facing this middle-income trap? I argue that, contrary to popular belief, which lays emphasis on improving our logistics costs, ease of doing business, labour laws, etc., the core issue is the lack of state capacity to address the new developmental needs of such a large and complex country. And since the state is involved in the provisioning of core services, like law and order, as well as basic services, like nutrition,

³ Somanathan, T.V., & Natarajan, G. (2022). *State Capability in India*. Oxford University Press. They have dealt with this subject almost exhaustively. Both are senior civil servants, the former being the current Finance Secretary of India.

health, and education, the reform strategy going forward needs to focus on strengthening state capacity.

The problem is that the private sector is now increasingly constrained by the lack of necessary public goods and services in all spheres.

The structure of the Indian government at all levels—centre, states, and local governments—remains antiquated, having changed little since independence. It is far too centralised; it has inadequate technocratic competence to deliver the services that it needs to; and, surprisingly, contrary to popular impression, it is too small in numbers to serve the expanding needs of a growing population and economy. Thus, India needs a new strategy to concentrate on the long-neglected social needs related to nutrition and health services; primary and secondary schooling, along with a major quality upgrade of tertiary education; universal provision of water supply and sanitation; and the quality of living in all its towns and cities across the country.

Addressing these problems, along with others, needs collective action: they cannot be tackled by the private sector itself. In fact, most of these are characterised by market failures. Hence the need for a paradigmatic change in our approach to avoid the middle-income trap.

We need strengthening of the state at all levels for improved governance in the country, which implies considerable institutional development for the next stage of our economic growth.

My hypothesis is that there may be a connection between the lack of labour-using manufacturing production, inadequate generation of non-agricultural jobs, and low productivity growth accompanied by the low level of skills available in the Indian labour force coming out of agricultural pursuits. Although there has been an unprecedented expansion of the Indian education system over the last couple of decades, most evidence suggests that the outcomes are not commensurate with its quantitative expansion. This needs urgent correction through policy aimed at broad improvements of human resources in India over the medium and long term and reforms aimed at reorienting the pattern of Indian industrial growth. The agricultural sector itself needs a new green revolution-like rejuvenation, which also involves improvement in the quality of human resources.

Although India is still at the low middle-income level, it is exhibiting some characteristics of the possibility of falling into the middle-income trap.

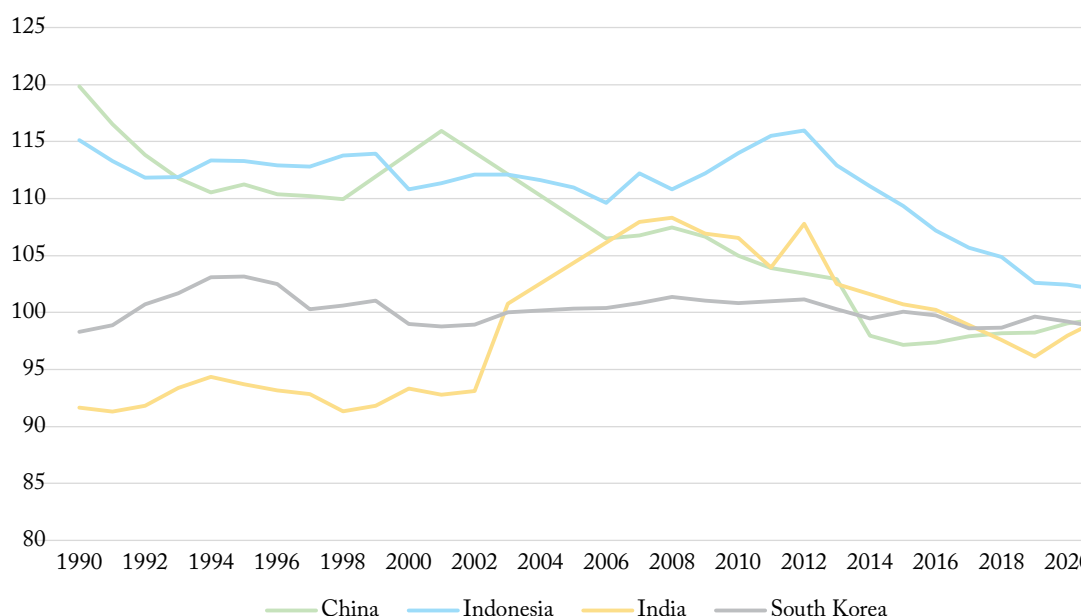
What Should we do: Key Areas for Action

Education

All countries—whether developed or developing—that have succeeded in achieving high rates of growth for sustained periods spanning more than a few decades have given priority attention to the public provision of health and education to the vast majority of the population from top to bottom. India stands out in its poor public provision of both health and education services, which requires urgent redressal.

We can find a clue to the problem of low employment generation, ironically, in the vast expansion of education that has taken place at every level over the last couple of decades, but which is riddled by serious quality issues, leading to employability issues.

Chart 4: Gross Enrollment Ratio (Primary)



Source: *The World Bank*.

At the primary level, the gross enrolment ratio (GER)⁴ was just over 90% in 1990 and has now been 100% over the last 15 years or so (Chart 4). Similarly, there has been impressive progress with the doubling of the GER at the secondary level in India to around 75% now (China has reached 100% and Indonesia around 90%).⁵ But, as the Annual Status of Education Reports (ASER), conducted by the NGO Pratham, have shown repeatedly, the achievement outcomes of primary education are much lower than might be expected: almost half of children in standard V are not able to demonstrate reading and numeracy skills at even the standard II level (Annual Status of Education Report, 2019). These findings are consistent with the high levels of stunting and wastage of children below the age of five recorded by successive National Family Health Surveys. Presumably, with these early health handicaps, children’s learning abilities could be permanently impaired. This is corroborated by the latest ASER report on youth in the age group of 14–18, which is even more disturbing: for example, about 25% of them still cannot read a standard II level text fluently in their regional language; and more than half struggle with simple arithmetic division (three-digit by one-digit) problems—a skill usually expected in standard III/IV (Annual Status of Education Report Survey, 2023).

GER in higher education has increased from just 8% in 2001 to almost 30% now, with corresponding enrolment increasing nearly fivefold from under nine million in 2001 to

⁴ GER is the percentage of the population of the relevant age group in each level of education.

⁵ For GER in primary education, refer to <https://data.worldbank.org/indicator/SE.PRM.ENRR?locations=IN-CN-KR-ID>. Accessed February 16, 2024.

over 40 million in 2022. This vast expansion has taken place in both government and private universities and colleges. The number of universities has increased from about 260 in 2001 to over 1,000 now; and the number of colleges from 11,000 to over 40,000. With the expansion having taken place at such breakneck speed, it is not surprising that there are huge quality problems among the vast number of graduates now entering the labour force, a large proportion of whom are often seen to be unemployable.

One index of the quality problem, and the difficulty of getting admission into the few better institutions, is indicated by the increasing number of Indian students going abroad. According to the Ministry of External Affairs, more than 1.3 million students were studying abroad in 2022, of whom about 450,000 students went abroad in 2021 itself. About 20,000–25,000 students venture abroad every year to study medicine: this came to light in very graphic terms at the start of the Russia-Ukraine war in 2022.

The explanation for the large number of applicants for even the lower level, few government jobs can be seen in the fact that more than 16 million students now pass tenth class board exams, and about 13 million pass twelfth class exams, every year. And then look for appropriate jobs, which are few and far between.

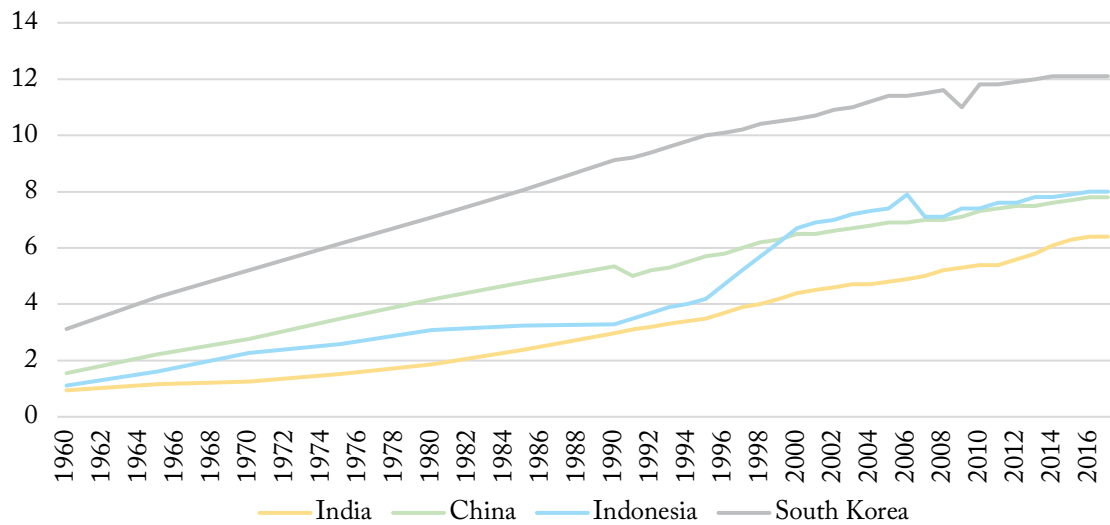
Because of these increased enrolments at every level, the good news is that the expected years of schooling for a child entering school today in India have now reached 12.3 years, not too far from 13.9 for China and 12.9 for Indonesia; but we are behind both these countries in this respect by about ten years. In developed countries, new entrants to the schooling system are now expected to complete 16 to 18 years of education.⁶ These developments augur well for the future: but the issue now is of poor quality; and the generation of jobs that are commensurate with the increased educational attainment of these new entrants. This seems to have been recognised in the National Education Policy (NEP) (Ministry of Human Resource Development, 2020) by the Government of India, but it remains to be seen how it will be implemented. The key question is whether the existing systems of education structure, governance, and administration are adequate to carry out the kind of reforms envisaged in the NEP.

Despite this rapid educational expansion, *unfortunately, about a quarter of the Indian adult population, remains illiterate*, with obvious implications for their employability in higher productivity activities in all sectors: agriculture, industry, or services. The existing mean years of schooling for the adult Indian population is still only around 6.5 years, compared with 7.9 for China and 8.0 for Indonesia (Chart 5).⁷ So the employability of the existing adult population, who will be part of the labour force for years to come, in higher productivity occupations, remains in question. It calls for an urgent mission on adult education, including vocational education for the existing illiterate adult population, which is not an easy task.

⁶ For data on expected years of schooling, refer to <http://hdr.undp.org/en/content/expected-years-schooling-males-years>. Accessed February 16, 2024.

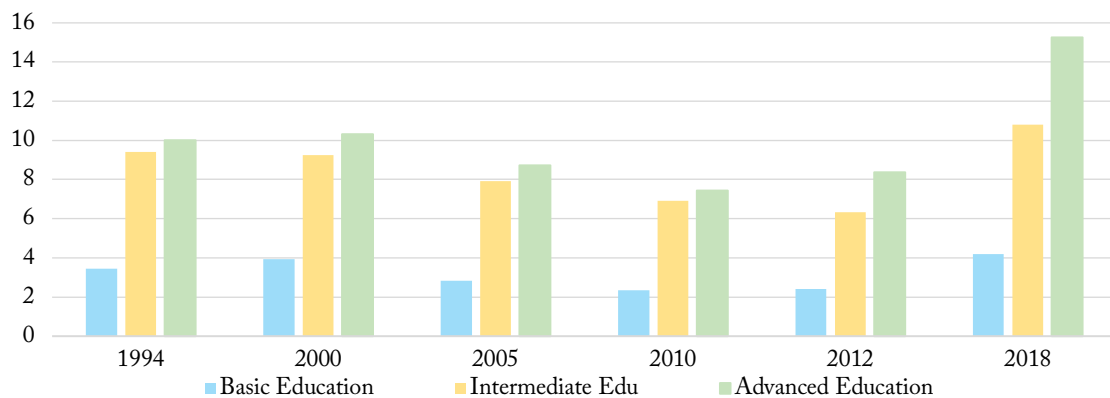
⁷ For data on Mean Years of Schooling, refer to <https://ourworldindata.org/grapher/mean-years-of-schooling-1?tab=chart&country=KOR~GBR~CHN~IDN~USA~JPN~IND>. Accessed February 16, 2024.

Chart 5: Mean Years of Schooling



Source: Our World in Data.

Chart 6: Unemployment Rate by Education Qualification



Source: The World Bank.

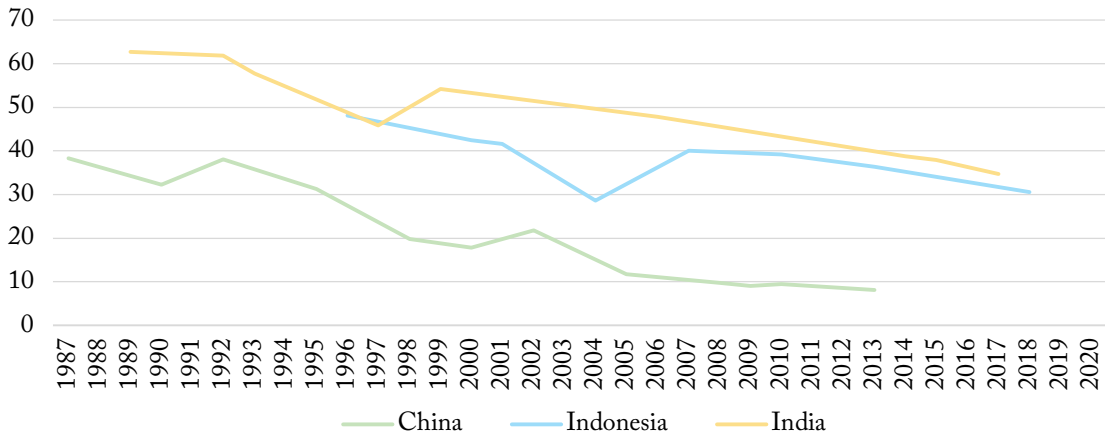
Overall, the record in education is mixed: there has been very substantial expansion in the quantity of education over the past 20 years; but there are severe quality issues at every level, making a large proportion of emerging students unemployable (Chart 6). If India is to emerge from the low middle-income levels and achieve high middle status over the next few years, overall improvement in the quality of education is the most immediate and urgent requirement. An overhaul is needed of both the administrative system governing education and the policies necessary to implement the approaches broadly outlined in the New Education Policy. This cannot be done on a business-as-usual basis. It needs a strategic gear shift.

Health

I have already alluded to the high levels of stunting and wastage observed among children between the ages of zero and five. It is shocking to observe that almost one-third

of Indian children fall in these categories even now, and almost two-thirds did as late as the early 1990s. China also had about a third of its children in the stunted category in the early 1990s. That proportion has now come down to less than 10%, perhaps nearer five (Chart 7).⁸

Chart 7: Prevalence of Stunting (% of Children Under 5)



Source: *The World Bank*.

This issue is of great concern since the lack of nourishment in the formative stages of childhood results in diminished mental ability because of underdevelopment of the brain. This naturally leads to poor learning capacity, hence poor school performance, and later difficulty in participating in productive employment.

Other indicators also demonstrate India's poor performance in the health of its population over time. Life expectancy at birth was only 32 at the time of independence. It reached 41 by 1960, which was not too different at that time from comparable countries like China (44) and Indonesia (47). With life expectancy now at around 69, India is about 30 years behind China and 10 years behind Indonesia (Chart 8).⁹

On other key indicators also, such as infant mortality, India and Indonesia were broadly comparable in 1960, but, although the Indian infant mortality rate now is around 25, we are behind Indonesia and China by about 15–20 years.¹⁰

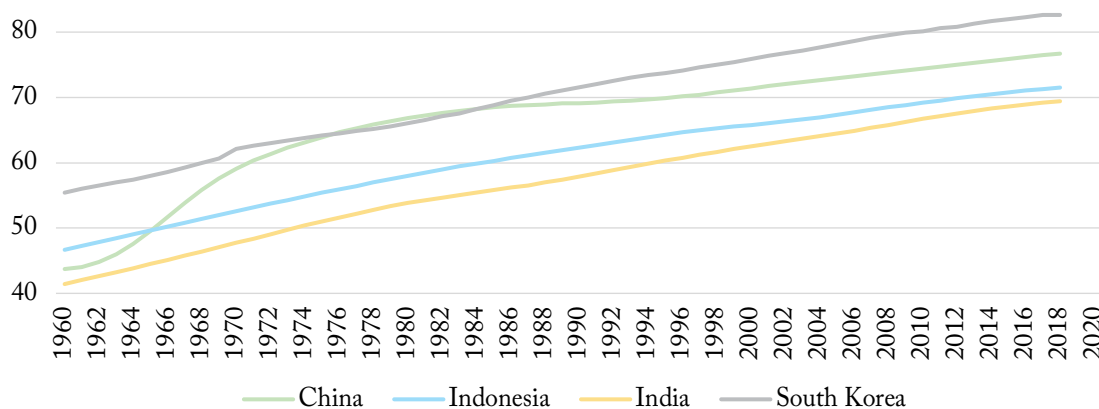
The comparable numbers for infant mortality in the United States were around 175 in 1880 and 25 in 1960 (Gordon, 2017a). There, “The main drivers of the decline in the death rate, which began around 1885, were the improvements in public health, such as the urban sanitation infrastructure largely consisting of central water supplies and sanitary sewers” (Gordon, 2017b). Clean water may explain as much as three-quarters of the decline in infant mortality in the United States (Cutler & Miller, 2005).

⁸ For data on stunting, refer to <https://data.worldbank.org/indicator/SH.STA.STNT.ZS?locations=IN-CN-KR-ID>. Accessed February 16, 2024.

⁹ For data on Life Expectancy at Birth, refer to <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=IN-CN-KR-ID>. Accessed February 16, 2024.

¹⁰ For data on Infant Mortality refer to <https://data.worldbank.org/indicator/SP.DYN.IMRT.IN?locations=IN-CN-KR-ID>. Accessed on February 16, 2024.

Chart 8: Life Expectancy at Birth



Source: The World Bank.

It is difficult to explain, therefore, why Indian public policy through the decades did not give similar attention to the provision of clean water, sanitation, and sewerage in urban areas. The resources required to undertake this programme on a countrywide basis are not particularly large. It was estimated that a total annual investment of only about **0.12% to 0.2% of GDP per year** over the 2011–2031 period would have provided 100% piped water to all urban households, with immeasurable health and productivity benefits (GoI, 2011). But this proposal has not received the attention it deserved: instead, expensive infrastructure projects like metros in select cities have been implemented.

Regarding rural sanitation, it is only the current government that has made a very major attempt to eliminate open defecation in the country, with reported significant success within a few years. Similarly, there are also schemes afoot to provide clean piped water to everyone, but there are still miles to go, even in the cities. For example, almost every middle-class household in cities has to install an expensive water purification instrument to ensure safe water.

Coming to healthcare itself, once again India exhibits a relatively sorry record. Total government health expenditures in India have ranged between 1 and 1.4% of GDP over the last 15 years—among the lowest in the world—and constitute only about 30% of total health expenditures. Even in the US, about half of the total health expenditure is done by the government, as much as about 8% of GDP. There are only 1.4 hospital beds per thousand population in India, of which only 0.5 are in public hospitals, compared with a 3.2 average for the world, of which the vast majority (2.9) are in public hospitals. It is not surprising then that India has among the highest levels of out-of-pocket health expenditures, at around 50%, compared with a world average of 16%. “The experience of the 25 years since reforms demonstrates that leaving the provision of healthcare to the invisible hand of the market is not the solution to achieving better health outcomes... In all high-performing healthcare systems, governments act purposefully to finance, plan and deliver the required services” (Mor et. al, 2017).

Given that the private provision of healthcare in India is here to stay, innovative methods are needed to ensure free or affordable health access to all in the country. The Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) scheme is one such example, wherein the government aims to provide for secondary and tertiary care to over 500 million people below a certain income level on a cashless basis in both public and private facilities. This is a good start, but much more needs to be done to provide the vast majority of the population access to free or affordable quality medical care so that their out-of-pocket expenses come down to much lower levels. For this scheme to be really effective, the health sector budgetary provisions have to be enhanced significantly at both the central and state levels.

Thus, we need a special resolve to concentrate on correcting the long-neglected social needs related to nutrition and health services; primary and secondary schooling, along with a major quality upgrade of tertiary education; and universal provision of water supply and sanitation.

This is a good time to make this correction, considering the significant quantitative improvement in some health and education indices over the last 30 years. Significant enhancement can now take place in the quality of Indian labour in the years to come if there is a new, focused policy approach on quality in both health and education at all levels. Business as usual won't do.

If we are to ascend to upper middle-income and later high-income levels, these are the areas to emphasise and act upon over the next ten years and beyond. Only then will the emerging labour force be employable in productive activities.

Governance: Need for State Strengthening

Parliament: It Needs to Work More

Let us start at the top of the three branches of government: the legislative system. The Parliament of the Union Government and the legislatures of the state Governments debate and then pass the laws that govern the country. It turns out that the average sitting days of both the Lok Sabha and Rajya Sabha over the past 20 years or so has ranged between 50 and 70 days per year, excluding the COVID year of 2020 (Ministry of Parliament Affairs, 2021, 2023). In comparison, both the US House of Representatives and the UK House of Commons had between 140 and 170 sitting days a year. The functioning of state legislatures is even worse: the average across states was 22 sitting days a year, with a maximum of 45 days for a couple of states (The Hindu, 2023).

Moreover, the Indian members of Parliament are grossly underpaid: their salary is only Rs 1 lakh per month, along with some allowances, free housing, and less than Rs 50,000 a month for office expenses, including secretarial and stationery costs. Interestingly, there is a wide variation across states in the salaries of MLAs, which go up to a maximum of Rs 2.7 lakh in one state.

Table 1: Average Sitting Days in Parliament

Country	Average Sitting Days in Parliament (Days per Year)
India (Lok Sabha & Rajya Sabha)	50-70 (last 20 years)
India (State Legislatures)	22
United States of America (House of Representatives)	140
United Kingdom (House of Commons)	170

Source: Ministry of Parliament Affairs, Govt. of India; Floor Calendars, Library of the United States Congress; Sessional Returns, United Kingdom House of Commons.

For a country aspiring to upper middle-income status, and then to higher incomes, the law-making machinery of the country needs substantial enhancement so that the laws passed are appropriate for modern needs. The number of days that Parliament and state legislatures are in session is simply inadequate for in-depth discussion and understanding of legislation. Similarly, the compensation provided to our lawmakers is just far too low to attract larger numbers of less well-off members, who have the domain knowledge required for law-making. The consequence is that only the well-heeled can bear the expenses needed for elections and then to be able to function as legislators. It is reported that 475 out of the total 543 members of Lok Sabha are *crorepatis*.

Public Administration: Still Steeped in the Antiquated Colonial Structure

One of the reasons for inadequate attention to these basic needs is the excessively centralised structure of our governance and administration. The delivery of basic services is best done in a decentralised fashion at the local level. What has been attempted since independence is excessive direction from, on the one hand, the centre to the states and, on the other, from the states to local governments. This is overlaid with the administrative system that is dominated by the elite central services—the IAS and the IPS.

There is no doubt that we need an administrative cadre that has a national perspective to bind the whole country together, taking account of the huge diversity that characterises the country. A significant revision of the current system will, therefore, require a great deal of thought, ingenuity, and innovation—one that combines some level of presence of all-India services at the local level to promote national unity and integrity while promoting the empowerment of local government and incentivising them to deliver all the basic services needed for a growing modern economy.

We inherited the colonial system of general administrators staffing both secretariat functions in state and central governments, and district administrative functions. This form of administration is essentially a colonial legacy. The main function of administrators during colonial times was to maintain law and order. Thus, the administrators had very clear objectives and, in some sense, were specialists in administration. There are

few countries in the world, if any, where such systems continue to exist. In most countries, local administration is done by some form of locally elected government.

India stands out in its low level of empowerment at the local levels of government. In the United States and China, around two-thirds of government employees work at the local or sub-provincial levels, whereas it is only 12% in India. This is also reflected in the low level of local government expenditure—amounting to only 3% of India's total government expenditure—compared with 27% in the United States and 51% in China. Correspondingly, Indian local governments raise only 6% of their limited total resources, the rest being devolved from higher levels. It is then not surprising that basic public services—being the province of local governments in most countries¹¹—have not been provided adequately in India (Kapur, 2020).

The main administrative powers and functions rest with the IAS and IPS officers, assisted by other government officials representing the state's various technical departments. Yet, countrywide, there are only around 5,000 officers in each service, with a 22% vacancy rate in IAS and 14% in IPS cadres, and a reduction of about 10% since the early 1990s. They staff the key posts in central and state administrations and govern about 800 districts. Overall, there are only about 1.6 central government employees¹² in India per 1000 population, as compared with more than eight in the United States. The total number of government employees in the country has fallen by 5–10% between 1991 and 2021, while the population of the country rose by almost 60%—from 846 million to about 1.4 billion now. No wonder that India is grossly under-administered.

For political reasons, the average tenure of officers in a district is very low—about 15 months (Livemint, 2019). Given the very short tenures of the key district officers, as well as those of technical departments, there is little local knowledge or expertise that is developed. In cities, even the municipal authorities' commissioners are from the IAS, who may be competent but have little intrinsic interest in the cities whose development they are responsible for.

Therefore, there is a crying need in India for recognition of this problem and for a new system that is designed to empower and develop local governments technically and financially at all levels.

Similar problems exist at the secretariat level at both the central and state levels. With increasing global complexity and interrelationships, most governmental functions require extensive domain knowledge for effectiveness in governance. With the existing Indian civil service system, generalist civil servants may be field district officers one day and state or central government secretariat functionaries the next. Domain knowledge

¹¹ In the United States, for example, the period “1870–1940 witnessed an extraordinary investment by state and local governments in both education and infrastructure. This was the period when clean running water and sewer pipes reached most of urban homes—an achievement that was largely financed by local governments rather than by private commerce... State and local governments worked together to finance the expansion of education from the 1870 attainment of elementary school graduation to a transition that occurred mainly in 1910 and 1940 toward universal high school graduation.” Gordon, R. J. (2016). *The Rise and Fall of American Growth: The US Standard of Living Since the Civil War*. Princeton University Press. p. 314.

¹² Excluding railways and postal service employees.

is generally absent at all levels. Secretaries of departments or ministries are transferred frequently: for example, between 2010 and 2014, each of the transport ministries had between three and five secretaries (National Transport Development Policy Committee, 2014). It is, therefore, difficult for knowledge-based policymaking—a necessity to escape the low middle-income trap—to be made in such circumstances.

Injecting technocratic capability in government is, therefore, a necessity to cope with the new global and domestic challenges.

Regulatory Institutions: Further Strengthening Needed

In response to increasing economic complexity, various regulatory authorities have been set up over the last 25 to 30 years.¹³ Domain knowledge is developing among the staff of these new authorities, but building such institutions takes time. However, most of these authorities continue to be headed by retired IAS or other civil service officials, reducing the incentive for experts to join. Each of them needs to enhance the level of technical competence in their staff at all levels, along with the size of the staff in each case. For example, the Securities and Exchange Board of India (SEBI) is now over thirty years old, but its staff at the professional level still numbers less than about 1,000, though it has increased from 182 in 2000; its US counterpart, the Securities and Exchange Commission, has about 4,500 staff. Similarly, the Telecommunications Regulatory Authority of India (TRAI), founded in 1997, has only 106 professional staff, compared with almost 1,500 in the US Federal Communications Commission (FCC). This is when the Indian telecommunications system has undergone a complete technological revolution and expansion.

Even the Reserve Bank of India (RBI) is relatively thinly staffed compared to other central banks and financial regulatory authorities. Despite being a full-service central bank, in charge of a whole host of functions, including monetary policy, government debt management, banking supervision and regulation, currency management, foreign exchange and reserves management, it had a total of only 6,653 professional staff in 2022—down 30% from around 9,400 in 2009. This is a period during which there has been a huge increase in the size, technology, and complexity of the financial sector. In comparison, the United States Federal Reserve system employs as many as 22,000 people, whose average technical quality is likely to be higher than the RBI's.¹⁴

¹³ These relatively new regulatory authorities include the Securities and Exchange Board of India (SEBI); the Telecom Regulatory Authority of India (TRAI); the Central Electricity Regulatory Commission (CERC) and State Electricity Regulatory Commissions (SERCs); the Competition Commission of India (CCI); Tariff Authority for Major Ports (TAMP); the Pension Fund Regulatory and Development Authority (PFRDA); and the Insurance Regulatory and Development Authority (IRDA), among others.

¹⁴ The data reported in these paragraphs have been taken from the respective annual reports of institutions mentioned.

Table 2: Number of Professionals across Regulatory Institutions in 2022

Regulatory Institution	No. of Professional Staff in 2022
India: Securities and Exchange Board of India (SEBI)	1,000
US: Securities and Exchange Commission (SEC)	4,500
India: Telecom Regulatory Authority of India (TRAI)	106
US: Federal Communications Commission (FCC)	1,500
India: Reserve Bank of India	6,653
US: Federal Reserve System	22,000

Source: Annual Reports for each Institution.

Thus, contrary to popular, widespread perception, there is ample scope for the expansion of government—broadly interpreted—in India at all levels for the purpose of improving efficiency and technical competence in the delivery of public services. There is a need for increasing both numbers, as well as technical and domain competence. This must not be done on any knee-jerk basis, but with a thorough evaluation of existing strength, competence, and identified needs for the strengthening of public administration and for the delivery of public services.

There needs to be a system change in the approach to public administration in India, away from the traditional colonial approach that continues to be in practice.

The first step is the recognition of the problem, which does not exist at present.

What do we need to do? First, we need to make public service prestigious again relative to the private sector—not for the exercise of power and authority, but for tackling effective governance challenges and efficient public service delivery. Most public service delivery operations, including those run by the civil service, need the injection of outside expertise at different levels. Each of our public authorities discourages lateral entry and, therefore, tends to become inward-looking and suspicious of new ideas. Lateral entry of outside experts would help in injecting new energy and even encourage public entrepreneurship. But sporadic lateral entry, as is being currently envisaged, will not be enough. What is needed is building cadres of domain expertise in different areas in the government itself at all levels—centre, state, and especially local.

If a systematic programme is indeed developed for lateral entry, a balance would be needed between those who come for specified limited periods and others who come on a relatively permanent basis once inducted. There is also value in maintaining the current administrative services that serve at different times across districts, state secretariats, and central levels through their careers. They provide stability and continuity in administration, along with the unity of the country.

Only if such widespread administrative reform is undertaken on an urgent basis can we expect improvement in public service delivery of all kinds necessary to take the country forward on an accelerated path of growth and development.

The Judicial System: Justice Delayed is Justice Denied

I am now perhaps treading on somewhat sensitive grounds, particularly since this is an area in which I have the least knowledge.

The most telling figure of the problems related to injustice in our judicial system is the proportion of undertrials languishing in jails in our country. Out of a total of about 5,73,000 prisoners in 2022, almost 76% were undertrials, having increased from 66% in 2012. Thus, only a quarter of the prison population were actual convicts who had been convicted, having undergone full trials in court. Interestingly, however, the prison population rate—35 per 1,00,000 people—in India is among the lowest rates in the world. Despite this low rate of prison population, our prisons are overcrowded, with the occupancy rate being about 130%. In comparison, the US has the highest prison population rate—531 per 1,00,000 people—as compared with China (119), Indonesia (94), and Pakistan (38). So, either India is among the most law-abiding nations in the world, or its law-and-order system is such that many crimes, civil or criminal, go undetected or unpunished. Despite the much higher rates of prison population, other countries have much lower proportions of undertrials: 18% in the UK, 25% in the US, but 70% in Pakistan. These data are remarkably similar for India and Pakistan—perhaps an indication of the fact that both have inherited the same administrative and judicial systems from colonial times (National Crime Records Bureau, 2022).

What is the composition of these prisoners? As might be expected, Scheduled Castes (SCs), Scheduled Tribes (STs), and Muslims are overrepresented in prisons relative to their population proportions. Among undertrials, 19% are Muslims, 20% are SCs, and 9.2% are STs, whereas their proportions in India's population are 14.2%, 16.6%, and 8.6%, respectively. So, about half of all the undertrials belong to these relatively underprivileged communities, as compared with the population proportion of 40%. Hence, the injustice in the system.

Why are there so many undertrials? There are about 45 million cases pending in district and taluka courts, about six million in high courts, and about 80,000 in the Supreme Court (National Judicial Data Grid, 2024). In district courts, about a third of the cases have been pending for over five years; almost half of those in high courts; and again, about a third in the Supreme Court. This is when the 34 judges in the Supreme Court handle an overwhelming load of nearly 70,000 appeals and petitions, issuing 1,000 judgements every year. They are clearly not under-worked! With this kind of caseload, on average, those cases that ended up in the Supreme Court took around 13 years from initiation in trial courts to disposal by the Supreme Court. The top court's proceedings accounted for about a third of the total time, like the average duration at each tier of the judiciary. On average, tax matters took around four years to be decided in the courts (Biswas, 2023).

Understaffing is reported for the number of judges, police, and the like in essential administrative and judicial functions. It is no wonder then that all judicial proceedings—both civil and criminal—take inordinately long in India: a major contributor to the un-

ease of doing business. The judicial system is reported to have a backlog of more than 30 million cases; it is further estimated that about 10% of these cases have been pending for more than ten years. Justice delayed is justice denied (Kapur, Mehta & Vaishnav, 2017). Even with these low levels of staffing, there is a consistent malaise of high levels of vacancies at any time: one-fifth of central government positions are vacant; one-third of high court judges; one-fifth of the Supreme Court judges; and one-quarter of district judges and police (Kapur, Mehta & Vaishnav, 2017).

Let us now look at contract enforcement and insolvency, which directly impacts doing business in India. The government instituted a major reform by enacting the *Insolvency and Bankruptcy Code (IBC)* in 2016, thereby setting up the Insolvency and Bankruptcy Board of India (IBBI). This is a major advance on the previous situation, when exit because of insolvency or bankruptcy was very difficult and took very long. Hence, many resources were kept locked up and unused, constituting a waste of national resources. The uncertainty caused by the lack of clear procedures, and the length of time taken, discouraged businesses from making investments, particularly in labour-intensive manufacturing.

The IBC has reduced the time taken to resolve bankruptcies as compared to lengthy delays under the Sick Industrial Companies Act (SICA) or Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act. However, it was apparent, as of November 2021, that in the five years since the IBC was passed, the time that would be taken for resolution and liquidation processes to be completed was underestimated. The resolution time taken under the IBBI process exhibits a great degree of variation—from around six months to more than three years in some cases. Similarly, the amount recovered also shows large variation—from less than 5% to almost 90% (Bhagwati, 2022). As in other countries, this process is always complex and goes through layers of judicial proceedings.

According to the World Bank's Doing Business indicators (2019), the average time taken for resolving insolvencies was about 1.6 years in India, compared with the best performance of 0.6 years in Japan; and the average recovery rate was about 70%, compared with 90% in Japan, 80% in the US, and as low as 20% in some Asian countries (The World Bank, 2019). So, whereas significant progress has been made, much more improvement is needed in terms of the time taken and recovery proportions. Case law is being built up, and one can hope that greater expertise will develop over time in terms of both insolvency professionals, along with judicial expertise, that can speed up proceedings. This is an example of the kind of institutional measures that need to be taken to ascend to the next level of sustainable growth of the country.

Similar improvements, however, have not taken place in the day-to-day enforcement of contracts. In this area, India ranks 163rd in the time taken and costs incurred for resolving commercial disputes. The average time taken for enforcing contracts is an unconscionable 1,445 days—i.e., almost four years! By way of comparison, the best-performing countries are Singapore and Korea, where the average time taken is 164 and 290 days, respectively, while in the US and the UK, the time taken is around 440 days. In

terms of the quality of judicial processes, India ranks near the top of emerging market countries. It is difficult to parse these numbers adequately, but this would suggest that the delays are not necessarily caused by the low quality of judges and processes.

We have a Difficult Road Ahead: But Have No Time to Lose

We have reached a juncture where India is poised to take the next transformational step in its journey towards higher growth and development. This is the context in which I have given this lecture: my belief in our country's ability to make strategic changes in direction when the time comes to do so. We made one such strategic change just after independence to set in motion our development process. We made another one in 1991, which launched the country on a higher growth strategy. This is now the time to make another discontinuous change to make sure that we don't fall into a low middle-income trap (Mohan, 2022).

I have argued that our overall structural transformation—the continuous movement of people from lower-productivity pursuits to higher ones—has been stymied over time, leading to severe employment problems. We have simply not generated enough non-agricultural, quality jobs to absorb the surplus, underemployed rural labour, nor the increasing numbers of educated urban youth in both rural and urban areas. I have further argued that there is evidence of the unemployability of a good proportion of both school and college leavers.

Much of this is a consequence of the lack of adequate nutrition for a significant proportion of children at early ages, which leads to difficulties in the absorption of learning at all levels. In most significant countries, education is free up to the secondary level. India's health and education services at all levels are among the most privatised in the world. The quality of public services in these areas is inadequate, leading the better-off to migrate to the private sector. Consequently, there is an excessive monetary burden on a large proportion of the population, which they can ill afford. What is needed is a very significant improvement in the quality of public health and education, along with nutrition, or other innovative methods for improving free or affordable access to quality private services. The graduating children will then have adequate ability to serve the new employment needs in the country.

I have also highlighted the need to initiate policies promoting large-scale, labour-intensive, export-oriented industries to absorb the increasing labour force at all levels. This will need quality labour to match the increasing technology needs. This would require coordinated action on several fronts that I have outlined. Such coordination will also include strengthening our diplomatic and trade policy fronts to promote Indian industry abroad. Since I'm speaking in the Reserve Bank, I should also mention the need to maintain a realistic real exchange rate so that Indian manufacturing can be competitive.

Simultaneously, our policy towards agriculture also needs a new direction away from the current subsidy raj toward promoting much greater agricultural productivity through a new focus on R&D and technology promotion overall.

As industrial and urban employment increases, much more needs to be done to make our cities liveable. This is necessary to attract both high-level workers in high-technology activities and skilled and unskilled labour in industry and services activities alike. This will not happen without a total transformation of the way we govern our towns and cities: town and city governments must be strengthened, expanded, and empowered to function in the interests of their citizens.

I have not talked about infrastructure (my earlier hobby horse) in this lecture since much has been done for its improvement. I have also not mentioned the state of the fisc since that is a large subject itself. Suffice it to say that if the state is to be strengthened in the ways that I have outlined, the tax-to-GDP ratio must increase significantly—from about the current 17–18% to more than 20%—within the next five years.

Almost all the new transformation directions that I have talked about need a different level of government functioning in the universal provision of essential public services. Unless this happens, the private sector will be constrained in making the kinds of investments necessary for employment-expanding growth. The current antiquated, colonial form of government in India is not equipped to make this kind of change.

Hence the imperatives of state strengthening.

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About the Author



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Prior to this, he was President and Distinguished Fellow, CSEP from October 2020 till May 2023. In March 2024, he was appointed to serve on the World Bank Group's Economic Advisory Panel. He has been a member of the Prime Minister's Economic Advisory Council (EAC-PM) since October 2021.

Prior to joining CSEP, Dr Mohan was Senior Fellow in the Jackson Institute for Global Affairs, Yale University and was also Professor in the Practice of International Economics and Finance at the School of Management at Yale University, 2010-12. He has also served as Distinguished Consulting Professor at Stanford University in 2009. Dr Mohan was also a Distinguished Fellow with Brookings India.

He has been closely associated with the Indian economic reforms process from the late 1980s. He was Executive Director on the Board of the International Monetary Fund, Deputy Governor of the Reserve Bank of India, Secretary, Economic Affairs, and Chief Economic Adviser of the Indian Ministry of Finance, and Economic Adviser in the Ministry of Industry.

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