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THE STEEL FRAME HAS BECOME A CAGE. A $10-TRILLION ECONOMY NEEDS DEEP CIVIL SERVICE REFORM

Relevant for: Indian Polity | Topic: Provisions related to UPSC, State PSCs and Civil Services in India, and their Role in Democracy

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In September 1984, J R D Tata responded to retired bureaucrat P N Haksar's letter taunting him that businessmen were not doing enough for India's development with "I began my 55-year-old career as an angry young man because I couldn't stomach foreign domination… I end it as angry old man… because it breaks my heart to see the continuing miserable fate of the vast majority of our people, for much of which I blame years of ill-conceived economic policies of our government. Instead of releasing energies and enterprises, the system of licences and controls imposed on the private sector, combined with confiscatory personal taxation, not only discouraged and penalised honest free enterprise but encouraged, and brought success and wealth, to a new breed of bribers, tax evaders, and black marketeers". Reforms over 35 years since J R D's letter — delicencing, deregulation, Aadhaar, UPI, inflation targeting, Bankruptcy, GST, lower corporate taxes, etc. — are India's strong foundations for a $5-trillion economy. But reaching a $10-trillion economy and a per capita income close to what China has today needs a new human capital regime for India's 20 million civil servants.

Let's imagine India's $10-trillion economy. Eighty per cent of our labour force works outside farms (the only way to help farmers is to have less of them). We have 200 cities with more than a million people (today we have 52). Our cities meet the Marchetti constant (people have 30-minute work commutes). Our government borrows at less than 4 per cent. Our Aadhaar-linked land markets equalise rental yields and mortgage borrowing rates. PSU banks are governed by an independent holding company with no access to taxes. Our credit to GDP ratio rises to 100 per cent (from today's 50 per cent) because our financial institutions know how to lend and recover money. Government school enrollment stops declining because learning outcomes improve (if anything should be free with quality, it should be schools). We have attracted China factory refugees that are going to Vietnam and Malaysia today. The global capital glut of negative interest rates chasing growth underwrites our investment needs. Fiscal discipline delivers low inflation. Fifty per cent of our college-going-age kids go to a diverse higher education system (today 25 per cent are in a homogenous system). Policy encourages formal hiring (today's labour laws are like marriage without divorce). Our reformed social security system covers 60 per cent of workers (today's cover only 20 per cent because the Provident Fund and ESI provide poor value for money).

Prosperity needs productive firms and workers. But India's capital is handicapped without labour and labour is handicapped without capital because of our regulatory cholesterol universe for employers of 57,000 compliances, 3,100 filings and 4,000 changes a year (details verifiable at http://www.teamleasecompliance.com and Rulezbook App). This horrible hostility to private enterprises comes from toxic civil service thought-worlds like prohibited till permitted, know-it-all rather than learn-it-all, too small for big things but too big for small things, poor and jerky law drafting, contempt for execution complexity, immaculate conception over continuous improvement, stereotyping the private sector as big companies rather than MSMEs, only using

punishment to enforce policy rather than design driven by domain specialisation, and not viewing wealth creators as national assets. Listed PSUs have destroyed $150 billion in value over the last decade, consistent with the Gujarati saying “Jahan raja vyapaari, wahan praja bhikhari” (where the king is a businessperson, the population is a beggar). Cutting this regulatory cholesterol needs a climate change for civil servants.

A new human capital regime starts with two projects each in six areas of structure, staffing, training, performance management, compensation, and culture. Structure Project 1 involves rationalisation: We don’t need hundreds of PSUs and departments in 55 central ministries (Japan has nine, the US has 14, UK has 21). Structure Project 2 involves reverting the cylinder to a pyramid on the way to becoming an Eiffel Tower (250+ people in Delhi with Secretary rank).

Staffing Project 1 eliminates the sanctioned and actual strength gap because this is possible only with good people being overworked, non-urgent work neglected, or squatting on unnecessary posts. Staffing Project 2 creates cognitive diversity and competition with 20 per cent lateral entry. Training Project 1 involves restructuring how courses are chosen (demand rather than supply driven), how course nominations choose people, how courses are evaluated, and how course results integrate with performance management. Training Project 2 involves making learning continuous rather than episodic.

Performance Management Project 1 involves a forced curve for appraisals of outstanding (20 per cent), good (60 per cent) and poor (20 per cent) because 98 per cent of people can’t be outstanding. Performance Management Project 2 involves replicating army thresholds where people retire at 50 if not shortlisted for promotion. Compensation Project 1 involves moving to a cost-to-government number by monetising benefits. Compensation Project 2 involves freezing salaries at the bottom (we pay too much) and raising them at the top (we pay too little).

The two culture projects are the most difficult — tone from the top around corruption and differentiation. Too many civil service leaders overlook graft among subordinates or don’t question the processes that breed corruption. And leaders punish good performers by writing performance appraisals that don’t differentiate between gaddha (donkey) and ghoda (horse), giving top jobs by seniority, and allowing automatic promotions that create a pool of “promotable but not postable”. Differentiation needs a fear of falling and hope of rising.

The current economic slowdown is short-term pain for long-term gain because of overdue medicine. This climate change for employers — ability and strategy only becomes valuable with competition and bankruptcy — needs replication for civil servants. Cutting edge economics views development as a game of scrabble where vowels provided by the government enable the private sector to make more words and longer words. The current civil service fails to provide enough vowels; the steel frame has become a cage. For too long, the brain of the Indian state was not connected to its backbone. Since that has now changed, it’s time to connect the backbone to its hands and legs.

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