

India is getting richer. Life must get better too

Higher incomes alone won't deliver better schools, reliable healthcare or cleaner cities. Five solutions can help India turn growth into a better everyday life



BY INVITATION
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Markets create wealth only where the state supplies what markets cannot: enforceable rights, infrastructure at quoted cost, enough security that ordinary people can take risks. That makes state capacity India's most important growth policy, and the next two decades a matter of construction rather than fortune.

A few numbers describe what a citizen actually meets. On the World Bank's Human Capital Index, an Indian child can expect a little over 11 years of school, of which a little over 7 convert into measured learning, leaving a wider gap than China's or Vietnam's. ASER's 2024 rural survey finds that less than half of class 5 children can read a class 2 text. Households foot 43.4% of health spending out of pocket. IQAir puts fine particulate pollution at 50.6 micrograms per cubic metre, 10 times the WHO guideline, against China's 31.0.

Behind these numbers sits one lever: the ability to tax and to staff.

General government gross tax revenue, Centre and states combined, was 18% of GDP in 2023-24. A median rich country collects 32.7%, and China was near 20% in 2007, when its income per head, in PPP terms, matched India's today. Public employment is 7.8% of the total against 12.9% in the US and 15% in China: the Indian state is thinly staffed, not bloated. Courts

up. Direct benefit transfers run across 318 schemes. The ILO records social protection coverage doubling to close to half of the population between 2021 and 2024. Open defecation, once practised by more than nine in 10 rural Indians, is down to one in nine. Few countries have moved that fast on anything.

The harder half is the work that never finishes: water, sewage, garbage, buses, breathable air. Almost all of it sits with cities, and cities are not funded for it. Revenues raised by municipalities stayed below 1% of GDP over the past decade, while Centre and state tax revenue climbed from 16 to 18% of GDP.

hold 5.6 crore pending cases, with 44% of high court cases pending for over five years.

The encouraging half: when India fixes a pipe, water flows quickly. In the late 2000s, economists found much of every NREGS wage rupee failing to reach workers; Andhra Pradesh moved those wages onto biometric smartcards, and leakage fell as payments sped



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Illustration: Uday Deb

standards with high human development and services that work for the average Indian, most of whom live in villages and small towns. In numbers: learning-adjusted years of schooling near 8.5, needing longer schooling and better teaching; out-of-pocket health spend below 30% of total health expenditure, a level at which a hospital stay is far less likely to bankrupt a family; pollution under 25, WHO interim target; sanitation above 90% against today's 62.8%; revenue near 25-30% of GDP; a municipal sector of 3-4% of GDP against today's less than 1%. That clears Brazil and nears Malaysia: a life that feels solid.

Three speeds are possible. Carry on as now, and growth alone takes India past the upper-middle-income mark in the 2030s while schools, clinics and air improve at today's rate, so the income arrives well ahead of what it is meant to buy. Reform in earnest, and two clocks start. The first runs fast: clean air, working pipes and staffed clinics respond to money and management, so cities show results within five years of funding. The second cannot be hurried, because a child entering class 1 this year finishes school in the late 2030s, and a workforce whose school years convert into learning is an early-2040s fact, however fast we move. The best case needs no new discovery, only both clocks running faster, in every state, helped by cheap energy and a young workforce.

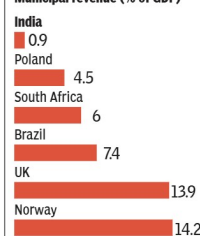
Five things would carry it. The first is revenue, where the opportunity is compliance rather than rates: third-party data trails, invoice matching, a better-equipped administration. Publishing an official tax-gap estimate is a first move. The second is money at the tier that delivers. OECD data show 62.5% of Indian govt spending as subnational, above the US and Germany, but that is states rather than cities. Municipal revenue is below 1.0% of GDP against 4.5% in Poland and 7.4% in Brazil, and property tax raises 0.15% in India against about 1% across the OECD. Air, water, sanitation and roads are municipal functions, so the biggest returns sit at the tier closest to the citizen.

The third is staffing, where talent is plainly abundant: railway recruitment in 2024 drew 1.86 crore applications for 55,197 posts. A study of the IAS finds officers perform better when promotion prospects are real.

THE TIER THAT RUNS THE CITY HAS ALMOST NO MONEY

India's cities raise about a fifth of what Poland's do

Municipal revenue (% of GDP)



The fourth is measurement. Across six testing rounds in 59 countries, researchers found that publishing school results parents can compare raised mathematics scores by nearly 30 points – close to a year of learning – compared with systems that did not. The gains were largest in the weakest systems. Italian procurement research makes the same point beyond schools: most govt waste is not theft but slow processes and idle capacity, which management can fix.

The fifth is legal capacity, which underwrites the rest. Digitisation is nearly done: 97% of village records are computerised. The law is not. A registered deed records a transfer, not a state-guaranteed title, and one village in seven has no map attached to its records. Property that can be proved can be taxed, mortgaged and built on, which makes courts, land records and municipal balance sheets one project, not three.

So, the date is a range. Income crosses the first threshold in the 2030s; services and human development for most citizens follow in the early to mid-2040s under sustained reform. Across 118 countries, how well a state works predicts how much its children learn; how much it spends on schools does not. That is the whole argument, and it is good news: the binding constraint is the one thing a country can improve without waiting to get rich first.

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FIVE WAYS TO MAKE GOVT WORK BETTER

- 1 Collect taxes more effectively**
Use data and administration to improve compliance, rather than relying on higher rates
- 2 Give cities the money to deliver**
Strengthen municipal finances to fund water, sanitation, roads and other daily services
- 3 Give public servants reasons to perform**
Build staffing capacity and make good performance count towards promotion
- 4 Measure results and make them public**
Publish comparable school results so parents can see how schools perform
- 5 Make property rights easier to prove**
Strengthen courts and land records so property can be taxed, mortgaged and built on

Across 10 states, nine of 10 metros are carrying fewer riders than forecast. Chennai at 37% and Ahmedabad at 11%. The tunnels got built, which was the hard and expensive part. What decides whether the money was well spent is feeder buses, footpaths and where the city allows people to live.

The benchmark for "developed" need not be Germany or Japan. A realistic first threshold is upper-middle-income living