



# Governance – A Conceptual Introduction

## LEARNING OBJECTIVES

*In this Chapter, you will learn about:*

- Governance
- Good Governance
- Kautilya on Good Governance
- Plato on Good Governance
- Aristotle on Good Governance
- Origin of the Modern Concept of Good Governance
- World Bank Prescription
- Elements of Good Governance
- Forms of Good Governance
- Reinvention of the Concept of Public Governance in the Light of Evolution of the Concept of Good Governance
- The Indian Story- Pre-1991 and Post 1991
- State, Market and Civil Society
- Public Choice Theory
- New Public Management
- Civil Society
- Governance as Networks and Collaborative Government
- Role of State in era of Governance

## 1.1 GOVERNANCE

*“Governance is the exercise of economic, political and administrative authority to manage a country’s affairs at all levels. It comprises the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences”.*

(Policy Report, 1997, United Nations Development Programme (UNDP)).

The concept of Governance refers to the processes and structures that are intended to bring about accountability, responsiveness, transparency, stability, rule of law, equity and inclusiveness, empowerment and broad-based participation. Apart from this, Governance also represents the values, norms and rules of the system through which public affairs are managed in a transparent, responsive, inclusive and participatory way. In a broad sense, Governance can be defined as the institutional environment in which citizens and other stakeholders interact among themselves and participate in public affairs. Therefore, governance is more significant than just the organs of government.

The key distinction between government and governance underscored by many scholars is, the involvement of institutions beyond the state in the management of the public affairs. Deputy Secretary General of United Nations, in his speech said “*Governance is not something the state does to society, but the way society itself, and the individuals who compose it, regulate all the different aspects of their collective life*”. The state thus is the wielder of power and the principal actor in the government. While in governance, whole society is involved in managing public affairs. The government still continues to play a key role in enabling and facilitating the participation of other elements in the society. The state, thus, as an enabler provides the important legal and regulatory framework and political order within which various organisations can act and function, and where the citizens act without fear.

The following is the key distinction between government and governance:

Government	Governance
Government is the structure which enables and facilitates the process of governance.	Governance is the process where-by various actors work for the welfare of the people.
It is the machinery and an organ which wields power of the State, it includes the Executive, legislature and the judiciary.	It is carried out by various entities including the State and other institutions existing outside of it, which includes the Civil Society, Non-Governmental Organizations etc.
It is a formal setup which interacts within itself and outside of it.	Though it evolves out of the formal setup of the State, it expands the scope of government and also intensifies the service delivery provided.

There are various entities which are involved in governance. Apart from the formal government and its institutions, the other actors are the NGOs, civil society, research institutes, financial institutions, educational institutions, lobbyists, MNCs, media, cooperatives, etc. All these institutions play a vital role in decision making and also influence the process of decision making.

## 1.2 GOOD GOVERNANCE

The World Bank defines the term Good Governance in one of its reports as “*Good governance is epitomized by predictable, open and enlightened policy-making, a bureaucracy imbued with professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs*”. Apart from this, Good Governance also refers to a participative manner of governing, which functions in a responsible, transparent and accountable manner based upon the notions of legitimacy, efficiency and consensus for the purpose of upholding the rights of individual citizens.

This idea of providing ‘good’ governance for the people has been in existence since ancient time. The concept of welfare state has been dealt by a number of world-renowned philosophers

including Kautilya. The government is understood to bring the happiness and for the welfare of its subjects. In a democratic setup, it can also be associated with efficient and effective administration. So such an administration should be development oriented and committed to the welfare of the people.

### 1.2.1 Kautilya on Good Governance

Kautilya in his Arthashastra elaborating on the traits possessed by the king of a welfare state, he stated that the happiness of the king lies with the happiness of his subjects, their welfare is his welfare, he should not act for his own pleasure but for the pleasure of his subjects. Thus, 'The King' is just a title given to the one who governs, this titular role is thought to be the brain of the government and the people, who are governed, are considered to be the heart of the government.

The ultimate role of the king is, therefore to govern for the welfare of his people. Kautilya mentions the following imperatives of good governance of a king:

- a. Guide the administration effectively
- b. Take the middle path, avoiding the extremes without missing the goal
- c. Maintain law and order of the state
- d. Pay fixed salary and emoluments to the public servants
- e. Lay emphasis on the writers
- f. Lead a disciplined life with morality and ethics
- g. Merge his individual personality with his duty
- h. Display administrative qualities
- i. Carry out strong measures against corrupt officials
- j. Replace bad ministers with good ones

### 1.2.2 Plato on Good Governance

Plato is credited with creating the *Philosopher King* as an Ideal ruler. Plato believes that conflicting values in various part of the society can be harmonised. The rational and righteous political order as suggested by Plato leads to harmonious unity of society where every part flourishes, without the expense of the other. Such a political realisation is not possible without virtue. Plato in his book *Republic* calls for the rule a Philosopher King. The following are the important aspects of a Philosopher King theory as dealt by Plato.

- a. The Philosopher king can be men or women.
- b. Only the bright, stable and courageous people are chosen to be a king. Special intensive training should be provided to them covering a wide area ranging from music, gymnastics to military aspects and city management.
- c. They should be imparted knowledge of being just, noble, good and advantageous.
- d. Goodness is not just a concept but it is the ultimate state of their mind.
- e. The aim of the rulers should be to spread happiness throughout the city by getting people close together in harmony.
- f. An ideal state is not governed for private gain and is free from any civil strife.
- g. The philosophers rule out of necessity and not for their benefit or pleasure. Hence, they should not have any attachment to the process of ruling and the power associated with it.
- h. According to Plato, freedom is one of the important values of the society. Apart from this, other values include wisdom, courage, justice, moderation and friendship.

- i. The rule of authority is not only rational but also moral and is based on the consent of the governed.
- j. The underlying idea of governance by philosophers is based on the idea of welfare.
- k. Philosophers rule calls for impartial and equal treatment of all citizens and social groups and the government exists for the benefit of all the group of citizens.

### 1.2.3 Aristotle on Good Governance

Aristotle can be considered to be the first person to deal with the term 'governance' when he classified political organisation based on the manner they are ruled as Dictatorship, Autocracy and finally Democracy. In his book *Nicomachean Ethics*, Aristotle describes that only when man lives with virtue, he can live a happy life as intended by the nature. In his other book *Politics*, he describes the role to be played by politicians and the political community in bringing about the life of virtue in the citizenry. Some of the important aspects dealt by Aristotle are as follows:

- a. The end or purpose of politics is the best of the ends. And the main objective of politics should be to stimulate a particular character among the citizens of the state and to make them better beings who are prepared and willing to perform noble actions.
- b. Aristotle calls for the citizens to directly participate in the assembly not just by voting for their representatives, but deliberately and willingly serve in the juries to help uphold the laws. So that the citizens can become part of a group which discusses the good and the bad, the advantageous and the disadvantageous, the just and the unjust and finally come to a decision and pass laws accordingly.
- c. The state should exist for developing the virtue of its citizens. Those who are the most virtuous are fit to rule according to Aristotle; and they will be the best rulers, on behalf of the citizens, instituting laws which lead to a virtuous life.
- d. According to Aristotle, no regime can exist if the laws do not rule them.
- e. Every human life has a telos or purpose according to Aristotle. The purpose and function of the political community is to provide education and laws that will lead people to pursue and achieve their telos.
- f. The best city according to Aristotle is one which is happy and acts nobly and such noble acts are impossible without noble ends.
- g. According to Aristotle, the territory of a state should be large enough so that its inhabitants can live a life at leisure in liberal manner and at the same time with moderation. And the main concern of study of Aristotle is related about the life at peace and not at war, hence he elaborates upon the character of a peaceful state.
- h. Aristotle calls for proper and effective education be provided to the young and it should be the main object of the legislator. Education should be same for all and common and should not be made privatized. The aim of education should be to empower the students to serve the common good of the city.

## 1.3 ORIGIN OF THE MODERN CONCEPT OF GOOD GOVERNANCE

The concept of 'good' governance emanated from the understanding of process of governance. Governance entailed participation from all sections of the society and the concept of good governance emerged at the end of 1980s, an era of tumultuous global political scenario. The collapse of Berlin wall on November 1989 triggered chain of events which ultimately led to the disintegration and collapse of Soviet Union and as a consequence the decay of alliances

in the eastern bloc. These political changes brought about the serious discussion on how a state has to be devised in order to achieve- economic development, or in other words a discussion on good governance.

In the 1989 World Bank Study “Sub-Saharan Africa-from crisis to sustainable growth” scrutinized the development problems in Sub-Saharan Africa. For the first time, the term “governance” was used to define the need for greater institutional reform and a better and more efficient public sector in these countries.

This study defined governance as “the exercise of political power in order to manage the affairs of the nation”. This concept of governance got further developed in the World Bank’s 1992 publication “Governance and Development”, and the term governance was defined as “the way in which power is used in the management of a country’s social and economic resources for the purpose of development”.

So governance emerged from the understanding of the government and ‘good’ governance from the understanding of the process of governance. This was done to help administrators understand the sound public sector management strategies. The governance cannot remain value neutral and hence the idea of ‘good’ governance is to qualify the process of governance. Because of its use by the World Bank and other International institutions, the concept of good governance gained impetus and is now at present widely welcomed and implemented in countries across the globe.

## 1.4 THE WORLD BANK PRESCRIPTION

The concept of governance has evolved and changed from time to time. Earlier it was only the process and then it changed to *governing by networks* during the cold war era. Finally in early 90’s, the conditionality vested by the west on the developing nations was not restricted to economics alone, it also extended to social, political and administrative policies.

The third world countries, who got the development aid and assistance from the western countries had coined a concept of ‘Good Governance’. This concept was officially highlighted in 1989 in a document from World Bank on the context of sub-Saharan countries of Africa. It identified four dimensions of good governance:

- Public sector management
- Accountability
- Legal framework for development
- Information and transparency

In 1992, the *World Bank* published a document titled “*governance and development*”. In the document, it states ‘good governance is central to creating and sustaining an environment which fosters strong and equitable development and it is an essential complement to sound economic policies’. It also identified three vital aspects of governance:

- The form of political regime exercised (parliamentary or presidential, military or civilian, and dictatorship or democratic).
- The process by which authority is exercised in the management of the country’s economic, political and social spheres and the limit to which the citizens are involved and given responsibility.
- The capacity of government to design, formulate and implement policies and in general to discharge government function.

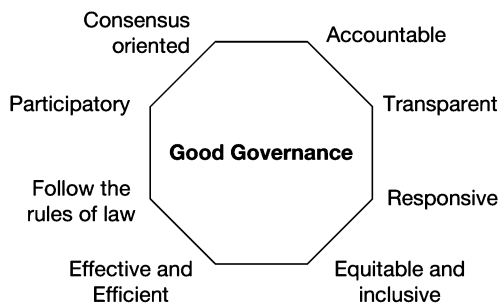
In short, good governance, according to World Bank, consists of:

- Political accountability
  - Regular election to legitimize the exercise of political power
  - Rule of law
  - Participation of various social, economic, cultural and professional groups in the process of governance
  - Bureaucratic accountability
  - Independence of judiciary
  - Freedom of information
  - Transparency
  - Effective and efficient administrative system
- Cooperation between the civil society and government.

The *Organization for Economic Cooperation and Development (OECD)* has also identified four major components of good governance:

- Legitimacy of the government
  - Accountability of the political and official elements of government
  - Competence of the government to make policies and deliver services
- Rule of law and respect for human rights.

As per the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Good governance has eight major features: participatory, consensus oriented, accountable, transparent, responsive, equitable and inclusive, effective and efficient, and follows the rule of law.



The *United Nations Development Program (UNDP)* in 1997 on its document entitled “Governance and Sustainable Human Development” enunciated a set of few principles that are grouped under five broad themes. They are:

1. **Legitimacy and voice:** It deals with the participation and consensus orientation of the society.
2. **Direction:** It explains the strategic vision of the government regarding good governance and human development.
3. **Performance:** The effectiveness, responsiveness and efficiency of the government are explained under this theme.
4. **Accountability:** It deals with the transparency and accountability of the government.
5. **Fairness:** The legal framework, Rule of law and equity among the citizens are explained in this theme.



*Report on Human Development in South Asia (The Crisis of Governance, Human Development Centre, 1999)*

This report lays emphasis on humane governance. It defines humane governance as good governance dedicated to secure human development. Governance must be:

- seen by people as participatory and in their own interest—‘ownership’;
- conducive to building of a society in which no one feels humiliated—‘decency’; and
- embodied in structures which are transparent and accountable to the owners, that is the people—‘accountability’.

Ownership, decency, and accountability are the bedrock principles underlying humane governance. While good governance must reduce transaction costs and enforce contracts, humane governance must be based on both real and perceived ownership, decency, and accountability for and by all citizens. People’s active participation is the guiding force behind the concept of humane governance.

Humane governance is a powerful concept which, if implemented, can help in enriching the life of the common people and lay the basis for fairer and more just societies in which human, political, and economic rights of all people are protected and their freedom of choice expanded.

This Report on Human development in South Asia visualizes three dimensions of governance which brings about human development, they are political governance, economic governance and civil governance.

### **Political Governance**

The characteristics of a good political governance are:

- Regular, free, and fair elections, with participation in form of multi-party democracy
- An impartial judiciary protected by constitutional separation of powers
- A constitution not easily amendable by any of the branches of government
- Accountability and transparency of elected representatives and public officials
- Full access of all citizens to justice that is prompt and affordable
- Elimination of all forms of discrimination against women and minorities
- Maintenance of peace and social cohesion within and between the states

### **Economic Governance**

The definition of good economic governance seeks an equitable outcome to the economic processes. Of the set of available policies that will foster competition, the state must choose those which will be most beneficial to the poorest sections of the society. The following are the basis for economic governance:

- Macroeconomic stability (balanced budget, low inflation, stable exchange rate) with the help of an independent central bank
- Guaranteed property rights for the people
- Taxes and subsidies must be progressive
- Sufficient budgetary allocations to social priority areas, such as basic education, primary health care, safe drinking water, adequate nutrition, family planning services, and micro-credit schemes for the poor;
- Adequate job creation
- Efficient and well-targeted subsidies for the poor
- Equitable access to credit and land

## Civil Governance

Good civic governance has several components. At its core is the determination and self-initiative of people to improve their capacity to govern their lives, by creating informal structures and processes to address the following basic concerns:

- Protecting basic human rights, particularly the rights of the disadvantaged members of society; and
- Securing fundamental political, economic and human rights for all.

Thus, from the above discussions we can deduce that governance is very dynamic and evolving in nature. It implies the following:

- Taking care of the functioning of the state for the well-being of its citizens
- Securing the citizens the fundamental rights guaranteed in the constitution
- Enrich and improve political, economic and social life of all the citizens
- Institutionalizing the system of governance
- Ensuring that the process of governance is transparent, responsive, responsible, accountable, action-oriented, ethical and accessible for all.

## 1.5 ELEMENTS OF GOOD GOVERNANCE

Good governance is a universally acclaimed, dynamic concept which is mainly associated with the effectiveness and efficiency of the administrative system in a governmental framework. The good governance is distinguished by the following aspects:

- **Participation:** Participation means that the people should be vested with the power to take part in decision making by participating in the organs of the government, that are Executive, legislative and Judiciary.

The entire society should be involved in the governance as envisaged by good governance.

The motive of good governance is, people should not only be the ultimate beneficiaries of the development, and they should also act as the active agents of development.

- **Transparency:** Transparency is another major attribute of good governance. Free flow of information, separation of powers, checks and balances between legislative, executive and judicial branches, check on bureaucracy etc., are the important features of transparency.

Secrecy in governmental affairs leads to corruption, inefficiency and weakens the governance as a whole.

Example: the unprivileged, marginalized and disadvantaged section of the society is affected to a large extent by not receiving the desired benefits from the socio-economic schemes of the government due to corruption or other malpractices of the officials.

Good governance envisages on the need for the people to access quality information regarding the governance and make public all the transactions in which the public interests are at stake.

- **Accountability:** Accountability implies the key to good governance. It is an obligation or willingness to take responsibility or to account for one's actions.



Good governance ensures that both legislators and executives are answerable for their actions, performances and the use of public resources.

It is the responsibility of the officials to explain or justify their actions to the people of the country, because it is from them the officials derive their authority.

Accountability is closely related to participation, which ensures transparency.

- **Rule of law:** Rule of law is a principle that all people and institutions are subject to and be held accountable to law that is fairly applied and enforced.

Good governance ensures that the legal framework should be fair, impartial, check excesses, protect human rights, secure justice etc.

In addition to the aforesaid aspects, good governance also includes the following:

- **Inclusiveness:** Good governance secures dignity and honour for all human beings, irrespective of their sex, colour, caste, and creed and provide them with opportunities for their well-being. No human being should be excluded from the mainstream functioning of the society.
- **Responsiveness:** All stakeholders in a society will have to be served within a reasonable time frame by the institutions and its process. This is one of the objectives of good governance.
- **Consensus oriented:** In a society, not all individuals are bound to have same interests. The aim of good governance is to mediate difference of interests has to be mediated through a broad consensus and arrive at a solution which is in best interest of the society as a whole.

Community participation is a necessary prerequisite for good governance.

- **Effectiveness:** According to good governance, the governmental institutions and processes, which are responsible for the administration, should make use of the resources available effectively in optimal level for the development and to meet the needs of the society. This will help the government economically.
- **Efficient:** The resource usage by the government should always be in an efficient manner, that is sustainable with no wastage and should also be environmentally conscious.
- **Responsibility:** Good governance holds the legislators responsible for keeping a constant vigil on the administration to maintain strong value and spirit to serve the people. It is also the duty of the legislators, as the people's representatives, to listen to the aspirations, political views and issues of the people and create law that satisfies the collective interests of the people.
- **Fair judiciary:** George Washington once quoted, "The administration of justice is the pillar of government".

It is the aim of judiciary to protect the citizens from the wrongful acts of the government. The law and legal bodies should be the guardian of the rights available to the people and protector of these rights from being mishandled or misled. If dispute arises due to the encroachment of these rights, the law institution should serve justice for the people with equality and with no discrimination.

- **Empowerment:** The civil society should encourage and harness the political energy of the people by making them take part in the societal development. Good governance

generally empowers the marginalized and disadvantaged people in the society, by letting them be a part of decision-making process, since they are the victims of the government's inaction and apathy.

- **Clean bureaucracy:** The bureaucrats, who implement the policies of the government, should provide access to the people, all information they ask for, a genuine and easy mechanism for information sharing, effective grievance redressal mechanism and above all should be free from all kinds of graft and corruption. They should also be impartial, alert, dignified with ethical qualities imbibed.

## 1.6 FORMS OF GOOD GOVERNANCE

Famous American authors and consultants, David Osborne and Ted Gaebler have summarized how government can be reinvented. So according to them, the various forms of governments to make it more effective are the following:

### Catalytic Government

The government should be steering rather than rowing. In other words, the government should bring in the public sector, private sector and non-governmental sector players into administrative action to solve the societal problems.

### Community-owned Government

The government should empower rather than serve. In other words, the government should include communities, citizens and families in the service delivery, since they are the intended recipients of the services provided and should also empower them with more control in the services from the control of bureaucracy to improve government performance.

### Competitive Government

Competition is perhaps the most important element for improving both the quality and cost-effectiveness of government services. The government, to increase performance and reduce cost, should inject competition among various service providers by rewarding efficiency and economy.

### Mission-driven Government

Transforming rule-oriented government into goal-oriented government is the main motive. In other words, the government should be driven by its goals and not by its rules and regulations. If mission driven, the government seems to be more effective, efficient, flexible and innovative.

### Results-oriented Government

The government should measure the performance of its service agencies mainly in terms of outcomes and not inputs. The government should find results by encouraging target achievement and mission-directed efforts. If the results are not measured, the government can't tell success from failure.

### Customer-driven Government

Customer driven means the government should meet and work towards customers and not bureaucracy. The government should regard the people as their customers and offer them with choices, survey their attitudes, make service convenient and most important of all, allow them to make suggestions.

### Enterprising Government

The government should emphasize more on earning money rather than spending it. For this the government should learn to recognize their assets and generate revenue from them. It should put its effort in resource mobilization by using fees, savings, enterprise funds, etc.

### Anticipatory Government

Governments should prevent problems rather than trying to cure them once when they occur. Long-term strategic planning, foresight in management, investment and decision making, sorting preventive measures are some of the aspects of anticipatory government. The government should prevent the arising needs first and not just deliver services to meet ends.

### Decentralized Government

The government should transfer the decision-making authority to those individuals and organizations at the bottom of the administrative hierarchy, who address problems on a regular basis, to get effective and innovative solutions. This is the dispersal of authority from higher to lower levels of governance to emphasize participation and teamwork.

### Market-oriented Government

The government should utilize a market mechanism rather than a bureaucratic mechanism to provide service to the public. Government can use policy to leverage the decisions and behaviour of individuals, instead of attempting to directly control them through administrative programs.

By following the above said goals, governments across the world have formed many mechanisms. They are:

- Creating autonomous public organizations
- Reduction in the size of government
- Corporatizing government organizations
- Reduction in welfare expenditure
- Reforming bureaucratic structure
- Measuring and evaluating performance
- Privatizing public undertakings
- Decentralizing authority to lower levels
- Bringing in private agencies for providing service
- Promoting transparency in administration
- Encouraging people's participation in administration
- Declaration of citizen charter, etc.

## 1.7 REINVENTION OF THE CONCEPT OF PUBLIC GOVERNANCE IN THE LIGHT OF EVOLUTION OF THE CONCEPT OF GOOD GOVERNANCE

The characteristic feature of good governance as seen in the preceding paragraphs, require us to redefine and reinvent the fundamental understanding of the state. Since ancient times the state has performed functions pertaining to development, protection of sovereignty of the country and law and order. Gradually its functions started to increase and it became so enormous that it covered all aspects of the life a citizen, it thus became a leviathan. It got burdened with all these functions which only grew in intensity and density with time. Thus, as a result the state was unable to perform all these tasks by itself. This therefore resulted in neglect of several vital aspects of governance. Some of the important aspects of socio-economic development got ignored or overlooked. The administration worked from the ivory tower which was inaccessible and irresponsive to the needs and requirements of the people. Such a kind of system of governance cannot operate in the present era good governance. Thus, there is a need to redefine the state in the context of these.

Some of the important scholars studying these aspects have said that usually the state is understood to be composed of only three traditional integral components: the Legislature, Executive and the Judiciary. The aspects of local government, private sector and the civil society have been considered as components that exist outside the official mechanism. In the past these elements, that is civil society, private sector and the local government were considered to be existing within themselves without any links to other state machinery, or generally they were considered to be non-existent from the context of the state, as they had, if any, only a minor impact. But as time progressed their nature and role started to change. These 'informal' agencies started to raise and expand when they were officially given recognition by the formal agents, that is the government. Therefore, the private sector and the civil society were encouraged by the formal agencies to participate in the process of governance. Such a development gave rise to many 'new' organs of the state in terms of their social acceptance, autonomy and resources which called for the redefinition of the state itself. Thus, there has arisen the need to redefine governance which has now replaced the traditional system of governance, this is either because of the deliberate politics played by the state in an evolutionary way or because of enthusiastic private sector and expanding civil society including that of NGOs and other such similar agencies.

Therefore, the redefined role of state should be sustainable human development with inputs from the civil society and the private sector. The sustainable human development will ensure the following:

1. Develop cooperation, whereby everyone work together
2. Ensure sustainability, including the concern of environment for development
3. Empowerment of people, increasing the opportunity for the people to participate in governance and decision-making process
4. Provide security, creating a safe, harmonious and conducive environment for living.
5. Create equity, equal access to public services for all the citizens.

## 1.8 THE INDIAN STORY- PRE-1991 AND POST 1991

### Pre-1991

This is the period when the birth of the new nation called India took place. After the recent freedom struggle its leaders wanted to have a representative government which was answerable

to the people, hence constitutional democracy was created. Since the country was still backward, the state took upon all the activities on itself. Even the private sector was underdeveloped due to lack of patronisation from the British. Hence, the only logical way forward during that initial period was to depend on the state to carry forward all the activities. The private sector and the civil society had no experience in governance process and they did not represent the diversified population in India, hence they were not taken on board. The state became the guardian of all the activities concerning the citizens, one could experience state from the cradle to the grave.

It was not long before the state became a leviathan. The state was not able to manage such an enormous burden. It became inefficient and inept. Moreover, the demon of corruption caught on and it further dragged down the state. This period was therefore called the license raj. The idea of state providing all services was taken more seriously by the later regimes. It came to such an extent that the state tried to prevent entry of well-established private players in areas they specialised, the government thus created a system of getting licences which tend to be a mammoth task in itself and apart from this the officials had to have their palms greased in order to make the file move a bit faster. This system prevented growth and entry of private players. Also the government reserved several key areas aimed at itself where such long-winding licences were not given. Combined with such policies and bureaucratic red-tapism, the country went further back into debt and which finally culminated in the year 1991, when the country had to pledge its gold in order to avoid default.

Planned growth in terms of five-year plans inspired from the Soviet Union was formulated and implemented. The socialistic pattern of society was sought by implementing such policies. The policy was called to be protectionist, and there was strong emphasis on import substitution and producing goods on our own. Economic interventionism became normal as state took over the control of the market.

Such policy resulted in balance of payment crisis, increased the national debt and created numerous problems in the public sector. In order to overcome this crisis, it was understood that the state has to be rolled back. This was also the view of international institutions like the World Bank and International Monetary Fund (IMF).

### **New Economic Policy-1991**

The new economic policy formulated in 1991 reduced the scope and role of the government. The emphasis was laid on providing conditions wherein the public sector could function with competition from the private sector. This was sought to be achieved by deregulating industries and liberalising foreign investments. Presently the state has only a few strategic and key sectors under its control where the private players are not allowed, otherwise all other sectors have been liberalised and the state now functions parallel in competition with the private players.

Various other steps have also been taken in order to protect the public. Many acts have been amended in order to come to terms with the liberalised market scenario, previous highly restrictive Monopolies and Restrictive Trade Practices Act (MRTP) which aimed to control the monopolistic and restrictive trade activities has now been changed. Apart from this, the state has sought to disinvest itself from various industries in order to give leeway for the management board of such industries to operate in a bureaucratic free environment. Such disinvested funds have been used for several development projects of the state. The state thus has not assumed the role of steering the economy from that of being the driver of the economy. Presently the role is to regulate the market, create environment conducive wherein no particular individual is preferred and the market competition takes over. Powers are sought to be given to

the consumers of such services whereby they are free to choose any individual who is effective in providing them the services they need. The concept of minimum government and maximum governance has understood to be the way forward in the coming future.

- **Fiscal reforms:** The important element in the reform process was to bring back the fiscal discipline. The fertilizer subsidy was reduced, sugar subsidy was abolished and other rationalisation measures were carried out. Tax reforms as suggested by Raja Chelliah were implemented to raise revenue by bringing better compliance in case of income tax and customs and excise, it also tried to bring in transparency and stability in the tax structure.
- **Monetary and financial sector reforms:** The interest rate was liberalised, which ensured that the private players get better loans for their new and upcoming projects. Since the liquidity was freed it brought in investments. Greater competition was created between the private, public and foreign sector banks by eliminating various constraints.
- **Reforms in capital market:** Narasimham committee recommendations for reforms in capital market was introduced. The Securities and Exchange Bureau was given statutory recognition, the state officially took over the role of the market regulator. It sought to create a free, fair and competitive environment which would facilitate mobilization of resources.
- **Industrial policy reforms:** New industrial policy of 1991 was created. It aimed to de-regulate to promote growth and competition. Hence, licensing was abolished except in some crucial sectors, areas reserved only for the public sector were restricted to only a few and other areas were opened for the private players to venture, disinvestment of the government share in public enterprises was encouraged, Memorandum of Understanding (MOU) was signed between the industry and the ministry in order to provide greater financial and administrative autonomy.
- **Trade policy reforms:** The main focus was to create openness. Policy was created to stimulate export and reduce licensing and regulation in the imports. Only certain items were kept in the negative list rest were opened for import, tariff restriction was removed and quantitative restriction was removed.
- **Promoting foreign Investment:** Government took several measures to bring in the foreign investment. Various sectors were initially partly and then subsequently fully opened up to full foreign investment. Foreign Investment Promotion Board was setup in order to bring in and regulate the foreign investments, various schemes to promote the foreign institutional investors were also carried out by the government from time to time.
- **Rationalization of the exchange rate policy:** The rupee was devalued. The difference between the nominal and real exchange rate was reduced. It was aimed to reduce the inflation and make the export more competitive.

## 1.9 STATE, MARKET AND CIVIL SOCIETY

The present era of neoliberalism demands a minimalist state. But the United Nation's Development Programme report portrays a worrying trend, human development indices in health, education, culture and environment have dropped significantly in countries where the state's



role got shrunk. Thus, as per the understanding of good governance given by the World Bank in 1992, the state has a new and far more important role to play in bringing together the interests of public and private institutions while taking social actions.

Market has been traditionally outside the formal system of the state. Market is considered to be a force controlled by elements of nature, that is it does not follow fixed parameters, it is dynamic and uncontrollable. Economics has thus tried to understand the functioning of such market forces in order to devise a pattern to it. State being a formal entity has been functioning based generally on written rules such as a constitution. The taking over the role of state by the market forces has been propounded by the scholars of economics around 1960s under the concept called the Public Choice Theory.

### 1.9.1 Public Choice Theory

Public choice theory refers to the use of tools of economy to deal with the traditional problems associated with political science. It is said to be the analysis of collective decision making. Thus, this evolution of public choice approach took place within the ambit of economics and basically focused on people's choice in selecting the public services. This theory envisages market-like competition in delivery of public services where the public are considered to be the customer, hence buyer of the best product. Public choice theory exerted major influence in giving a coherent understanding and interpretation of actual functioning of the politics and government. It lent hand in understanding the actual basis of functioning of the bureaucrats and the politicians. It also helped in creating an alternative to the formal setup, thereby empowering the citizens who were henceforth considered as customers or consumers of the public services.

This public choice theory is in strict opposition to the formal bureaucratic model of the state. It is in support of the market forces taking over the role of the bureaucracy, in this sense it is considered to be anti-bureaucratic. Such a theory developed because of the inefficiency and ineffectiveness of the bureaucratic system. The state seemed to function without any parallel system and they seemed to be the only provider of certain services to the people. Hence, the people had no choice but to be dependent on the government for all such services. Government barred with red-tape and corruption was not able to provide such essential services to the actual beneficiary. The state and bureaucracy as stated had taken all roles in the journey from the cradle to the grave of the citizen and the citizen had no other alternative but to be dependent on the government for anything and everything. The public choice theory reversed this idea.

1. This theory gave the power and choice to the people.
2. It tried to dilute the existing bureaucratic system and allow the market forces to penetrate whereby competitive environment is created.
3. When such free-market competition is created, it would ensure that the bureaucracy is faced with only choice that it either adapts to the market mechanisms or withers away.
4. Entry of market forces are a boon to the public in the sense that they now have option to choose who provides them the services they need, moreover in case they are dissatisfied with one provider they can always move to another, in this sense it creates a 'choice' for the public.
5. The bureaucracy and the state in order to survive will try to bring in changes to its functioning, thus it would naturally become efficient and effective in the longer run.

Vincent Ostrom who is the supporter and proponent of the Public Choice theory, said that “*Perfection in the hierarchical ordering of a professionally trained public service accountable to a single centre of power will reduce the capability of a larger administrative system to respond to diverse preferences among citizens for many different public goods and services and cope with diverse environmental conditions.*” And “*A variety of different organizational arrangements can be used to provide different public goods and services. Such organizations can be coordinated through various multi-organizational arrangements...*”

Thus, the public choice approach opposes the traditional bureaucratic setup. It is in the favour of decentralisation whereby the monopolistic control by the state is broken down. The public thus should be allowed to participate in the administrative process. It also calls for institutional pluralism whereby a single service is provided by different operators hence creating a free-market scenario where the public is allowed to choose between them. In such scenario, the decision-making process is made democratic.

Thus, Public Choice theory calls for

1. Anti-bureaucratic measures
2. Diversified institutions for taking decisions
3. Bringing in the free market forces to operate the administration
4. Creating plural institutions, providing preferences for the consumers choices
5. Decentralisation of the power
6. Participation of the public in administrative process

The other essential aspect of the Public Choice theory is that it questions the very basis that is ‘publicness’ of the public administration. As per Niskanen the public administrators are ‘budget maximisers’ and the politicians are ‘utility maximisers’ who function for improving their vote banks. Thus, as per this understanding every individual and organisation not works for the public but rather to promote their own good and survival. The public is hence deprived of effective services. Thus, the central idea of Public Choice approach is to limit the government. ‘Choice’ to the public implies competition. This will ensure that the public administration becomes efficient and effective. The expansion of this theory can be seen by the development of the concept of New Public Management.

### 1.9.2 New Public Management

The reforms in the public sector were initially based on the theories of new institutional economics and managerialism. In the period of early 1970s, the conservative economists stated that the predominant presence of government was a hurdle to economic growth and freedom. They also advocated that the government should have a lesser role to play and the space created by withdrawal of the government in some areas has to be occupied by the market which alone can bring economic efficiency.

Moreover, the managerialists called for the adoption of principles of private sector which had the potential to solve the bureaucratic problems associated with the public sector. This measure of privatisation of public sector practices and services will change the values, culture of the public administrator. This would improve the performance of the government. In order to identify the best model, the scholars came up with the concept of New Public Management.

The core themes for the New Public Management were the following:

1. Greater orientation towards the customer and increased responsiveness, providing and increasing the scope of non-public sector service providers.

2. A common and controlled mode of functioning whereby everything is effectively managed. Targets are identified and set and the performance is monitored.
3. Efforts to encourage entrepreneurial form of bureaucracy in deviation from its traditional form, and placing them with larger sense of accountability.
4. A strong focus is on to effectively control the finances, increase value for money and the efficiency.
5. Audits to be introduced at both professional and financial levels, transparent means are used to review the performance. Benchmarks are set and the professional behaviour is monitored.

The New Public Management approach brings together the public and private administration. It aims at making the public administration more effective, improving its efficiency and bringing in economy. The basis of the public choice approach is taken and this approach laid emphasis on creating a process-oriented administration with more concentration on the performance indicators. The pay would be now linked to the individual's performance and quality improvement. The services offered by the administration are seen as product and hence the citizens are replaced by consumers. The public administration is just another provider of goods in the market, and hence they should not be given any kind of preference. All the functions of the state are broken down into separate, individual components whereby such individual entities are privatized or contracted out to competitive players.

The other major aspect is cost-cutting, whereby to do more or better with the same or less. Being seen as *budget maximisers* the public administrators are thus now under pressure to act efficiently. Thus, managerial aspects and understanding of the private sector has now been adopted for the public administration. As per Christopher Hood, the New Public Management has the following seven features:

1. Explicit standards and measures of performance are to be provided
2. Greater stress is laid on discipline and efficiency in utilisation of resource
3. Greater emphasis on output results than that of the procedure
4. Greater emphasis on professional management of the public services
5. Competition to the public sector by opening them up
6. Break down or disaggregation of units of the public sector
7. Take up the private sector management practices

The concept of New Public Management itself is in a state of transition and evolution and recent developments in public management has tried to make it more holistic and people-friendly. Thus, in the changing global scenario where market forces and individualistic goals often over run the social goals, the state and the markets are thus needed to be supplemented by the civil society organisations or the so called non-state actors for a democratic development administration.

### 1.9.3 Civil Society

A civil society is a collective of those social organisations of people who enjoy the distance and separation from the state, and are autonomous, they pressurize and influence the government on behalf of their people whom they represent. The markets being driven by profit and the bureaucracy generally considered to be inefficient and unresponsive. The civil society organisations have now gained prominence because of their very nature of being flexible, participatory,

non-bureaucratic, non-official and cost-effective and also of their ability to reach the people untouched by the government.

The civil society aims to represent the people who are not or under-represented to the government. They represent the interests of those who find difficult to voice their opinion, the persons who are ignored and excluded from the system. The civil society thus gets involved in the activities of the state, they either contest or formulate alternate means of provision of service to the people. Some of the civil society organisations exist in order to aid the government and to help delivering the services by mobilising the people. Collaboration between civil society and the state happens when both sides are involved together in all aspects of policymaking, implementation and evaluation. Civil society is thus a reservoir of political, economic, social, cultural and moral resources which checks the authoritative behaviour of the state, promote pluralism, increase participation of the public and augment interest articulation, and finally provides alternate avenues of welfare services to the people.

### 1.10 GOVERNANCE AS NETWORKS AND COLLABORATIVE GOVERNMENT

The concept of governance can be understood in various ways. It can be understood as, first, to be an attempt to widen the scope of public administration by going beyond the formal setup of the government and second to be a democratic intensifying concept whereby it makes the administration more open, transparent and accountable.

The concept of governance can be defined as “the ability to get things done without having the legal backing to command that they be done”. Thus, the concept expands the concept of governance and it therefore frees the administration from the conventional formalism. The important aspect of breaking of formalism is that it opens up various possibilities of using society’s alternative collective problem-solving mechanisms and devices. Governance is thus understood to be more a network of multiple agencies and organisations than a fixed entity called government agency or department.

Governance in this aspect means establishment, operation and networking of various social institutions. In a concrete form it can be seen in the formal rules and regulations, various decision-making procedures and other activities that assist to outline social practices. In actual practice, there are numerous forms of community organisations, voluntary or other self-help approaches through which people organise themselves to achieve common purposes. This can be seen when people come together to solve problems like irrigation, water dispute, local dispute and taking community defence measures. Governance can be understood in such context as a way of shaping social institutions as a matter of public concern. To get the things done through the formally constituted system of government is hence not the only way to achieve the social goals.

Hence, governance becomes a network of numerous social organisations and there has to exist collaboration between these various organisations as it would avoid duplication of work. Governance being wider than government cannot be restricted to once single organisation. Even the civil society cannot alone be the provider of governance. Governance can happen only when the state, the private sector and the civil society comes together to provide services. There has to be understanding and collaboration between these various players. To ensure this, there indeed has to be a formalised system of government, without the government the governance itself will lose its legitimacy. The civil society or

the private sector cannot alone provide all such services to the people, hence governance is not a replacement of the government but rather expansion of the system, bringing together other participants into the formal system to enhance the service delivery ultimately benefiting the people.

The other aspect of governance highlights the importance of rule of law, human rights, the participatory development and system of democratisation. It goes beyond the managerial and technical aspect of the governance to the more fundamental ethical-normative dimension. The state as understood by the ancient Greeks stood for the providing good life to its citizens. Hence, it is not enough that the governance is carried out on managerial aspects. What is more important is the equity and legitimacy of the system. People from all corners of the society should be given opportunity to participate in the decision-making process and the fruits of development should invariably be shared with all without any discrimination. Also it must not get captured by an influential minority. People's perception about the governance process is also important. It serves as the measure of legitimacy of the governance. Empowerment is therefore a precondition of good governance.

In today's highly complex setup of governance, government alone cannot solve the various problems plaguing the society. A certain degree of networking with other organisations in the society will improve the capacity of governance as a whole. Moreover, this will also help in the development of 'social capital' in terms of the acceptance, involvement and co-sharing of problem-solving by various social groups.

## 1.1.1 ROLE OF STATE IN ERA OF GOVERNANCE

Though various theories and concepts such as the Public Choice approach, New Public Management, etc. call for a minimal government, the present understanding of 'good governance' reiterates the role of state in the era of governance. What needed is not lesser government but more governance that is the state should facilitate involvement of other participants into the act of government without itself going backstage. Only a formal state can ensure that a representative government is taken up, and people from all sections of the society get their voice heard. Thus, government cannot take a backstage, it should actively involve itself to ensure that the process of governance is carried out with equity and that underlying principles enshrined in the constitution be upheld.

The New Public Management has called for a democratic governance by means of reducing the role of government and increasing the role of private sector in providing services to the people. The main aspect is to expose the bureaucracy to competition and making the public administration adopt private managerial principles. These prescriptions sought to bring a market-regulated system of governance. The proponents of such concept assure that such a market-regulated system will help in better delivery of service for the development of society. But there are some flip sides to such measure:

- The market system itself is not perfect, and especially in developing economies it cannot be sustained to bring about development
- Markets decisions do not ensure that the resources are allocated optimally
- There is no system of ensuring equilibrium between aggregate demand and supply
- The fundamental ideal of equity is overlooked by the market mechanism

Because of all these shortcomings, the role of state has become more important in ensuring effective system of governance. Under New Public Management, the state is considered

only to be a facilitator, but in reality the state has much more important functions to be carried out. The abovementioned New Public Management itself suggests that state should occupy all those areas which are overlooked or ignored by the market.

The essentiality of the role of the state in the present era can be understood by the following functions bestowed upon the state:

- Create a foundation of law based on which the private sector can play a pivotal role and help the government regulate such functions
- Ensure that the macro-economic stability is maintained for the purpose of attracting private sector investment because private sector cannot thrive when the economic conditions are fragile or instable.
- Invest in creating social capital. Investments have to be made in the sectors of social services and infrastructure development because the private sector will not venture into such acts as they are motivated by profit. The government is run for the public good and hence they can carry forward such functions. Moreover, investments in infrastructure involve huge cost and long gestation period for getting returns. Hence, in order to attract effective investment in the economy the state should first ensure that it has all proper infrastructure in place.
- The state also needs to protect its vulnerable section. Not all the section of the society get representation by the private players, not all in the society has the ability or the power to make a choice, hence for all these disadvantaged sections of the society the government is the only hope for providing them means of livelihood. This cannot be entrusted with private sector, it can only be carried out by a representative and democratic government.
- The present concern about sustainable development and protection of environment can only be taken up by the state. The private sector will tend to overlook such aspects in pursuit of profit. The natural resources are wealth of the people and the nation, it has to be protected by the state and should not be allowed to get destructed in pursuit of attaining development. Hence, sustainable development can be achieved when the state creates proper legal checks and balances.