



## Tank up for growth

Abhijit Banerjee, Hindustan Times  
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Pranab Bardhan, who is one of the most astute observers of the Indian scene, and I am proud to say, a friend of mine, says that in India we have democracy but not deliberative democracy. We resolve political differences by taking to the streets, rather than by discussion and debate. So it was with the Indian

government's current efforts to get rid of the petroleum subsidies. The government announced that subsidies have to go; the Opposition called for a 'Bharat bandh' and generally made a lot of noise. In the end petrol was decontrolled, but with an assurance that if petroleum prices were to go above some critical level, the policy would be reconsidered; diesel is supposed to be decontrolled, but, as of now, there is no roadmap for how to do it. Kerosene and cooking gas prices were raised but decontrol remains off the table.

It is clear that this is the kind of issue where a public debate involving the man in the street (we do have debates in India, but they are mostly on English language TV and in the learned pages of newspapers like Hindustan Times), could have made a huge difference. I have great

confidence that the average poor Indian would have no trouble seeing who stands to gain from a petrol subsidy — remember it is private cars that use petrol — if he were invited to think about it. Diesel subsidies are bit trickier, because food gets transported by trucks and the poor do ride buses, both of which use diesel.

But it is not so hard to introduce some relevant numbers into the conversation — for example, the average non-air-conditioned bus travels close to four kilometres (kms) per litre of diesel according to my sources, which means that someone who travels on a bus for 10 kms with a normal crowd of, say, 50 people, will pay about one rupee more per trip if the price of diesel went up by a massive R20 per litre. So if he goes 10 kms to the nearest town for work every day and comes back at night, it will cost him an extra R2 per day. Not nothing, but little compared with what it would cost the person who drives her air-conditioned diesel Mercedes Benz 10 kms to work every day (R80 a day, at 5 km per litre).

Now it is true that the R2 are worth more to someone who makes say R100 a day, than R80 to the person who makes R8,000 (which is probably a lower bound for someone who drives a Merc). But that is missing the point. In order to save the bus-rider his R2, the government is handing Ms Merc Driver R80. This much, I am sure, once spelt out, everyone will understand.

Now comes the tricky bit: suppose the bus-rider says, yes I get all that, but why would I give up my R2 to spite someone I don't even know? The textbook answer to this is: sure, but wouldn't you prefer if the government just handed you (or even you and the woman in that big silver car over there) R3 a day and got rid of the subsidy? The problem is that we have no good way to do this because our transfer programs are so leaky — the government can promise the bus rider his R3 but can it make sure he gets it?

I suspect that the Unique Identification (UID) will solve this problem in the not-too-distant future. But right now this is the real constraint. However, I am still optimistic about the average Indian. I think he will have no trouble understanding the fact that our government is living beyond its means, partly because of the at least R60,000 crore it spends in the average year on petroleum subsidies (that is almost R600 per Indian!), and this is a significant part of the reason why prices keep going up so much, which ultimately hurts him.

Moreover I believe that in his guts he understands that all these private cars in the street are not exactly helping life for him: he is late coming home because of the traffic; he can smell the carbon fumes in the air. Subsidising driving is not in his interest.

Still the government may need to sweeten the deal a bit more. Perhaps there is a way to subsidise bus fares and reduce tolls and taxes on trucks and buses. It will need some figuring out but it can be done. If

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fledgling democracy in 2005 without political upheaval, we can surely do it. The leaders of the UPA just have to be willing to take the debate to the streets, explain why we need to go there, fight the misinformation with words and reason.

And this is the time to do it. Not to leave it half done: decontrolling while keeping the option to re-impose controls is in some ways worse than just keeping the controls, because it creates huge incentives to continuously lobby for controls — who is to say whether they are needed — with the obvious implied temptations for those running the petroleum ministry. It also creates huge pressures on the government — it will take a brave finance minister to resist subsidies if petroleum prices were to go up before a key election. Let us get rid of the whole problem once and for all

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