

“India is essentially in denial about the costs of democracy”

– Rajeev Gowda

 blogs.lse.ac.uk/southasia/2016/11/14/india-is-essentially-in-denial-about-the-costs-of-democracy-rajeev-gowda/

2016-11-14

*The issue of how to finance politics is one that plagues democracies everywhere. In the case of India it is particularly acute, as the current laws – despite good intentions – serve to encourage corruption in the system. During his recent visit to LSE to speak on this topic, **Professor Rajeev Gowda** sat down with **Sonali Campion** to discuss the problems and possible solutions, as well as the government’s recent decision to take high-value rupee notes out of circulation.*



SC: Speaking at the South Asia Centre earlier this month, Ashutosh Varshney describe election finance as the “single biggest weakness of India’s election process”. What are the key problems?

RG: The country is essentially in denial about the costs of democracy, which are manifold: at one level you need politicians, and to be a politician is essentially a full time job which requires people to be able to earn a living and participate in the political process. Who is able to do that? This limits who gets into the fray in the first place, we may not be attracting the best people because of the costs of participating.

For democracy you also need competitive politics, and for that you need parties in power, parties in opposition, movements, activism – all of which do cost money. Where are those resources going to come from, and how do you raise enough money to sustain something?

Finally, the actual costs become very stark at election time, where over the years things have deteriorated. In the past you would appeal to voters on the basis of ideology or past contributions, for example to the freedom movement. Today many of those coming into politics have been chosen because they are wealthy, so they often have nothing to offer beyond their money. They try and parlay that wealth into votes by offering the electorate cash. It used to be liquor and things like that, now it is really cold hard cash.

There’s no end to this – you can start with Rs. 100 per vote but it quickly escalates to Rs. 1000, 10,000 – where is it going to stop? In certain states this is exacerbated because you get competitive spending. Voters fifteen years ago would say, “this guy’s given us Rs. 1000, someone else has also given us Rs. 1000, so we’ll split our vote. I’ll vote for one, my wife will vote for the other”. Today they take money from everybody and decide who they want to vote for independently of that, so the cash doesn’t necessarily even convert to votes.

The end result is parties are now looking for people that can finance themselves. The only viable candidates are people who have amassed a lot of cash, which is often unaccounted or untaxed money. Having been elected they ask, “how am I going to get a return on what I’ve spent?” So they have a very different agenda. This sets in motion a very cynical set of events where the system itself starts to become extortion-orientated, where no project is seen for its merits but for its kickback potential.

How do you see political finance laws specifically feeding into corruption?

If you want to be an honest player under the existing rules, you’re pretty much wiped out. One crucial aspect of financing and expenditure law is that you can raise resources openly as a political party, but not as an individual. However, we have this old fashioned notion that elections should be very inexpensive affairs so there is a cap on expenditure. That cap is so preposterously low that you couldn’t even send a post card to all of your voters with the amount of money that they allow you to spend legally. Technically if you (as an individual) are caught spending more than that you can be disqualified or lose your seat. Those of us who don’t want to violate the law basically find ourselves in this conundrum. We can possibly raise some more money but we can only spend Rs. 70 lakh

(7,000,000) per Lok Sabha seat and that is a fraction of what is needed.



One interesting development over the last few years has been the rise of the Aam Aadmi Party (AAP), which managed to mobilise volunteers, raise and spend funds under the limit and win. But part of their success is down to the fact they attracted the equivalent of millions of dollars of free media coverage because they've been agitating in very clever and creative ways. That is a counter-argument to many of the things I'm saying because they have shown that clean politicians can possibly survive in the system. But one swallow doesn't make a summer, and already they're talking about being broke and so on.

The expenditure limit is very low, so the Election Commission (EC) polices that carefully. They will be very nitpicky and focusing on overt expenditure when actually the action is underground. The EC insist that an election should not be a festival, but a funeral with minimal expenditure. At the same time those who have no qualms are saying "let's go do what we need to do". This creates a big disconnect between honesty and reality.

I argue you should just get rid of expenditure limits, to let it come out openly so you can actually see who is spending how much. At the moment, nobody every files a true declaration because of the limit. So the election commission says "why should we change the limit when everyone seems to be doing fine?" Yet you'll have an extraordinarily wealthy candidate will say, "I've spent Rs. 5 lakh" – not even Rs. 70 lakh. If the cap were removed you would be shocked at the amount of expenditure – it's probably around a couple of million dollars per candidate for a Lok Sabha seat. That is serious money in a poor country.

Modi went to town attacking the alleged corruption of the previous government (my party's government!). Then he makes the bold statement that he is not corrupt because he doesn't have any family members to pass on money to. Yet he proceeds to spend a billion dollars on his campaign. Unlike the individual, there is a loophole where the party can spend as much as it wants so the spending itself might be legal. But even then, there are gaps in how much they declare and how much they actually spend, and how much they raise through sources they are willing to reveal and so on.

The question becomes where did the money come from? If you're going to spend that much it has to come from somewhere, and that will entail compromises in governance. In the current government everything is so centralised and so well and tightly controlled that if there is corruption it would be at a very sophisticated level. However, I cannot believe businesses will invest in campaigns and not expect a return. My basic argument is we need to change these laws and we have to find alternatives.

You've mentioned dropping caps on expenditure, what are the other specific reforms that you think would make a difference?

First, get rid of expenditure limits, let the sunlight in. Second, allow individuals to raise money. At the moment, I can raise money on behalf of my party, but the chances that the party will actually return it to me to campaign are low (although it should be noted that individual fundraising can give rise to other negative impacts as people might then fall prey to lobbyists).

The other suggestion is some kind of partial or conditional state funding. Many people argue this will only increase the amount of money that in the system. I counter argue that a clean viable candidate needs only a threshold of public expenditure: the rich candidate from the other party can spend a hundred million dollars, I don't need to spend as much because I can also draw on my good rapport with the people, reputation and so on.

How do you ensure that candidates receive that threshold level of funding? There are many methods that have been suggested – both [Yogendra Yadav](#) and Dr Quraishi have outlined a system that basically rewards parties with Rs.100 per vote polled in previous election. This is kept in a bank account at constituency level to be used for political activity over the course of a term, and would allow candidates without financial resources to be chosen as a candidate because there's a pool of money that can be used for this purpose. There's also a positive incentive – the better you do, the more resources you have.

This is not the solution for newer parties, so how do you deal with them, or with independent candidates? There would have to be other methods for them – perhaps matching the amount of money they can raise openly and legally.

These are just a few suggestions, but one of the reasons I'm giving these talks is to start a discussion and generate other ideas. I've been studying state funding initiatives in the rest of the world, and it has highlighted political financing is a real problem that plagues democracies everywhere.

Where will the drive for change come from?

Many of the parties are looking for solutions, and anything that could actually lower the demand to raise money all the time. If you said to them the government will contribute they'd love it! But someone's got to take the first step and persuade the electorate, who will balk – they'll say you're wasting our money. At one level the people of India vote with hope, they want cleaner politics, the you come up against the issue that necessarily willing to contribute officially and legally to the political process. Some of it will have to come from citizens themselves and bodies like the Election Commission.

I believe that the country is wealthy enough, and that the cost of corruption is so high that it is worth investing in cleaning up the system.

If you could take away the imperative to raise money through corruption it would allow us to crack down on the corrupt, or at least take away one of the big drivers.

What do you think about the decision to take Rs. 500 and Rs. 1000 notes out of circulation? Is it an effective way to take black money out of the system?

It's an interesting move. It forces people to declare how they got their cash, which may be a good thing, but I've heard that about 85 per cent of India's cash in the system comprises of Rs. 500 and Rs. 1000 notes. Some chunk of that will have evaded tax but a lot of it because we have a very informal cash economy, so this will actually hurt a large number of people. The big black money players will probably already have converted their resources into land or gold so it's unlikely to attack them that much. Counterintuitively it will really affect one of the core constituencies that supports Modi – the small businessman. This group has routinely evades taxes and they are a very cash dependent community. There's also this whole issue of counterfeit currency triggered by Pakistan, but coming in via Bangladesh and Nepal, which may be addressed.

There's also the question of whether this will push people toward the cashless economy. Right now the country is

poised for that transition, with Aadhaar cards, unified payment interfaces, Paytm cards and so on. There's a certain amount of infrastructure that is in place to move us in that direction but it's not easy to ensure financial inclusion, and a lot of people are just used to cash.

It's a costly exercise, you're taking out billions of dollars' worth of currency out of the economy and replacing it with something new. It's not at all clear how it will actually play out. I hope the Reserve Bank of India is able to manage the transition. Modi does have a reputation of being a very good executor and his team also seems quite competent; let's see if they can pull this off.

This article gives the views of the author, and not the position of the South Asia @ LSE blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

About the Author

Professor Gowda is currently a Member of the Rajya Sabha, the Upper House of India's Parliament and a National Spokesperson for the Indian National Congress party. He has previously been the Chairperson of the Centre for Public Policy at the Indian Institute of Management Bangalore, Director of the Central Board of the Reserve Bank of India, and Associate Professor at the University of Oklahoma. He has a PhD in Public Policy and Management from the Wharton School, University of Pennsylvania and has been an Olin Post-Doctoral Fellow at the University of California Berkeley and a Carnegie Council Global Ethics Fellow. His most recent co-edited book is [India's Risks](#) (2014).



Sonali Campion is Communications and Events Officer at the South Asia Centre. She holds a BA (Hons) in History from the University of Oxford and completed her MSc in Comparative Politics at LSE.



- Copyright © 2016 London School of Economics