

## **Book Review**

Politics Trumps Economics, Interface of Economics and Politics in Contemporary India, by Bimal Jalan and Pulapre Balaktishnan (Eds.), New Delhi, India: Rupa Publications, 2014, 211 pp.

This edited book discusses political economy within the realm of development economics to show how politics has far fetching consequences on the outcomes of the well-intended economic policies and reforms. In a nutshell, the book illustrates the institutional failure in India whereby the institutions were largely non-functional and unresponsive. The different chapters by different authors examine a wide range of issues, namely political development in India, governance and policy. As such, this book offers an interesting read to understand the interconnectivity between politics and development. India, being the world's largest democracy, has to untangle the tension between politics and development for a better outcome.

In the first part of the book, Bimal Jalan provides an overview of the progress of India as well as a brief account of the politics and governance issues in India, opening up an avenue for a discussion by other scholars who have contributed to this edited book in various ways. The overview sends a clear message that improvement in governance and reducing corruption are imperative to reduce rising disparity. Indeed, given the multiple-party coalitions without any shared agenda, improving administrative efficiency and bringing reforms may not be feasible. In the second chapter entitled "Two Concepts of Equality" by Meghnad Desai, the author argues vehemently for social equality, a concept that he prefers to term as equality of dignity, which was ignored largely in the past. Political parties have neglected the issue of social inequality given that they are from the upper class. The commissioning of the report on the social conditions by the Janata government provides evidence on the strong correlation between jati status and economic and social inequality. The author argues for the need to fight for dignity in India. He delves into the challenges Indians face in upholding social equality due to class differences as well as caste. For Desai, social equality (dignity) should coexist with that of income or wealth equality.

Dipankar Gupta in his "Beyond Cleavage Politics" discusses the changing political landscape in India going past politics with the emergence of the so called "citizen consumerism". Consumerism here refers to the demand of the citizens on services from the state and society in helping them to move beyond their initial status. He argues that politicians nowadays are forced to compete with each other by expressing social urge rather than social cleavage, for instance, caste politics. Urbanisation and 'since rural is

not rural anymore' has contributed to the emergence of the civic consumerism. Indeed, education and horizontal mobility have helped greatly. More importantly, connectivity – internet, mobile and others – has resulted in citizens demanding better services from the state.

Poonam Gupta, another contributor to the book, examines a fundamental question with regards to what the voters reward. Simply put, her chapter examines factors that explain election results, namely candidate characteristics, party characteristics and performance. The results show that voters' preferences are for parties that deliver high growth within their constituency. Among others, party affiliations and voter characteristics, namely education, age and wealth affect election results. Ashima Goyal deliberates on the issue of institutions, incentives and different interests in the Indian democracy. Taking the notion of inclusive and extractive institutions of Acemoglu and Robinson (2012) the author argues on the interrelations between political inclusions with that of economic inclusion. As a whole, extractive political institutional setting in India has been blamed for the lack of overall inclusiveness, be it economic or social. Nevertheless, the author is optimistic that change is happening, albeit slowly, but stresses on the need to do away with caste-based policies and the reforms needed to change the weak institutional settings.

Samuel Paul examines why corruption is pervasive in India. He argues that lack of awareness, functioning and nature of government which is monopolistic create the opportunities for corruption. Indeed, abuse of public power for private gains as well as citizen's unawareness of their rights create the perfect ground for corruptions. He also discusses the barriers to corruption control in India which are mainly related to weak governance e.g. lack of proper mechanisms in preventing, monitoring and punishing corruption. The way forward, he argues, is to have major anti-corruption reforms, improve governance, promote transparency and educate the public. More importantly, citizens' demand for accountable governance will be able to change the landscape significantly.

Ram Mohan highlights the issue of corporate governance and its challenges. Internal and external mechanisms as well as an appropriate institutional framework are crucial for corporate governance. Nevertheless, he argues, the scandals involving large corporations indicate that corporate governance have not lived up to expectation. He suggests that at least four areas require scrutiny – reliability of accounts, ineffective boards, autocratic CEOs and outsized packages of the executives. India's governance issues are largely seen in the context of risks to the minority at the expense of the majority shareholders. The argument is on the inadequacy of the corporate governance framework based on the Anglo-Saxon framework for India. The author argues that India needs a more radical approach with regards to corporate governance and leaving those issue entirely to market forces would

not promise any success. Given that India's problem is different, the author outlines a radical change in improving the corporate governance in India that relates to the composition and selection of the board, monitoring the board effectiveness, regulations for executive pay and boards role in ensuring that the CEO does not become overly dominant.

Pulapre Balakrishnan addresses the issue of governance for inclusive growth and argues on the role of political leadership in shaping social justice. The author questions if high growth can explicitly deliver social justice. She also stresses that achieving inclusiveness in India would mean identifying the strategic and important factors that promise better employment and wide spread effect of growth in various sectors of the economy. Inclusiveness should at least satisfy the following two criteria: a) Improving the agricultural sector in terms of productivity and market information as it is an important sector, and b) Improving the education system since India has a large workforce in rural areas. Likewise, households devote large shares of their budget to food. This would empower the poor economically and via institutional reforms including political which are necessary as India progresses towards the inclusive agenda.

Authors such as Ravi Kanbur, Sunil Mani, Govinda Rao and Deepak Mohanty discuss the policy issues in India such as innovation, public finance and monetary. Ravi Kanbur describes India's informal sector and discusses on how mindsets influence policymaking related to the informal economy. Policymakers who presume themselves as only part of the formal sectors due to the legality framework act most often by introducing intervention programmes for the formal sectors. According to the author, this mindset limits the policymakers looking at the bigger picture of the interconnectivity between informality, poverty and low productivity. Policymakers should be exposed to the experience of the informal economy, virtually allowing them to live and experience the life of the poor, to make greater development progress. The Exposure and Dialogue Programmes which India had participated twice is cited as a good example to have a greater impact in formulation and implementation of developmental policies.

Sunil elaborates on India's generous tax regime in promoting in-house research and development and assesses if those incentives generate greater investment in R&D. An increase in R&D over time has been noted in both domestic and foreign firms. Indeed, the incentives have, to some extent, improved the business enterprise sector's R&D intensity. Nevertheless, data scarcity prevents Sunil from examining the impact of such incentives extensively. Govinda, on the other hand, discusses on the public finance issues – taxation and public expenditure – and provides a good account of India's fiscal deficits at state and central levels. The chapter argues on the political group constraining the tax revenue productivity as well as distorting it unintendedly. Taxation is seen as narrowly based due to political reasons -

assigning agriculture income tax to the states and non-agriculture to the central as an avenue for avoidance and evasion. Various interest groups can lobby for tax exemptions and concessions that impact on public expenditures. Concerns for deficits and debt require fiscal adjustments. As the author argues, robust institutional arrangements to monitor the fiscal behaviour of the central government are needed. On the monetary policy, Mohanty gives a brief account of the objectives of the monetary policy and cost of inflation in India. The monetary framework is further elaborated from the historical perspective dating back from 1935 since the inception of Reserve Bank of India (RBI). The author concludes that the governance and framework of the monetary policy have evolved over the years and as such the role of institutions, in this regard, has been instrumental in the economic development of India. The RBI in this respect, has been regarded as one of the most respectful institutions in India.

On the whole, India's largely dysfunctional political system is seen as the stumbling block for her progress. Nevertheless, how those deficiencies related to the political system can be tackled are not addressed in the book. Indeed, institutional changes are not easy to come about nor a change could promise a better India. In general, the book provides the way forward stressing on the need for good governance. However, the question will be how governance should be practised and can this governance necessarily promise the changes that the authors want India to have. The book is a good read and perhaps one could anticipate the content as its title clearly reflects the main themes. A general prescription of Indian political system is well articulated and the book complements and strengthens Acemoglu and Robinson's arguments on extractive institutions. Political economy seems to play a bigger role not only in India but in most parts of the world especially in less developed as well as developing and emerging countries who aspire to catch-up. While some manage to break the curse – extractive institutions - such as Taiwan and Korea to join the ranks of the developed nations, others, particularly Malaysia, or even the Middle East, are still struggling in the transition.

## Reference

Acemoglu, D., & J.A. Robinson. (2012). *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York, NY: Crown

VGR Chandran  
Associate Professor, Department of Development Studies  
Faculty of Economics and Administration, University of Malaya  
E-mail: vgrchan@gmail.com