

# **ECONOMICS, ECOLOGY AND THE ENVIRONMENT**

**Working Paper No .3**

**Good Governance in Suitable Development:  
The Impact of Institutions**

**by**

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## **GOOD GOVERNANCE IN SUSTAINABLE DEVELOPMENT: THE IMPACT OF INSTITUTIONS**

### **ABSTRACT**

The possibilities for good governance depend on institutional structures and the economic resources available for ensuring governance. In some cases centralised governance structures are inefficient. In other cases, decentralised structures turn out to be inadequate. In India decentralisation of power to village level has not improved the efficiency of rural development. Decentralisation of power, it is said, by facilitating the empowerment of people in local communities can contribute to more sustainable development. On the other hand, in India, the delegation of power to the states in some cases has resulted in the destruction of the environment. Thus centralised and decentralised governance structure have both merits and demerits. Preservation of the environment which is essential for sustainable development can not be achieved unless the pressure on forest and natural resources is reduced. This cannot happen in the absence of appropriate property rights of local communities and of rural women. In West Bengal as well as in the central Himalayan region in India it has been found that the disappearance of community control and restrictions on the user rights of villagers reduced the incentive and ability of villagers to use forest sustainability.

On the other hand, in Russia, pristine forests are being degraded because of lack of resources of the weak central government. Good governance also depends on appropriate institutions. Corruption, bureaucratic inefficiency, inefficient and corrupt law enforcement agencies undermine the capacity of institutions to facilitate good governance for sustainable development. Corruption and rent seeking activities can grow even in an economy which has tried to apply outward oriented economic policies if an appropriate institutional environment does not exist. A state which assumes predatory or semi-predatory status can systematically incapacitate all institutions for good governance and effective implementation of policies.

Thus formulation of policies cannot ensure effective implementation in the absence of good governance which in turn can not be achieved in the absence of appropriate institutions. Hence, sustainable development requires good policies and effective provision of institutions conducive to good governance.

## 1. Introduction

The possibilities for good governance depends on institutional structures and the economic resources available for ensuring governance. In some cases centralised governance structures are inefficient. In other cases decentralised structures turn out to be inadequate. In a federal state with a multi-party democracy such as India, the capacity of the federal governance structure to influence the states' governance apparatus is limited when the state administrations are run by political parties not in power at the federal level and since the production and delivery of certain goods and services are controlled by state administrations, conflict is likely to occur when the centre wants to impose its decision on the states. This conflict contributes to ineffectiveness. But the inefficiency may also result from the formulation and application of policies by the central government which is out of touch with the needs of local people and has little knowledge of local environment.

There are numerous cases where the programmes and projects formulated at the top and implemented for people at the bottom did not achieve the desired results.

Roy and Tisdell (1992, 1995) in examining the impact of technological change on the rural sector in India, argued that serious deficiencies existed in implementing policies and administering development programmes.

An evaluation of the "food for work" scheme revealed that women accounted for only twenty percent of the beneficiaries (Duvvury 1989). A study of the impact of the Integrated Rural Development Projects (IRDP) by Rath (1985) found that the beneficiaries were misclassified and that only three percent of the rural poor were able to cross the poverty line. Ben Crow (1992) observes that what the IRDP, first envisaged as a comprehensive strategy for growth with social justice, came to be implemented as the promotion of individual household enterprise because it did not threaten the dominant rural power structure. Thus

one can say that the interests that the Indian state represent include those of the dominant rural class. However in Ben Crow's argument the implication is that IRDP at least served the interest of the dominant ruling class but sometimes, the interest of the state may not include the interest of any dominant class. In any case, Van Arkadie (1990) argues that the power relations within which states and institutions operate cause them to pursue objectives inconsistent with development.

Decentralised governance structure reduces the need for co-ordination as the centralised structure transfers to lower levels of government those functions which it cannot manage effectively. Chambers (1988) has argued that large centralised and hierarchical organisations such as governments tend to simplify, centralise and standardise. These may be appropriate ways for organising some kinds of activities, but not others.

Decentralisation conventionally has taken three forms - (i) "deconcentration" referring to transferring resources and decision making from headquarters to other branches of central government; (ii) "devolution" referring to devolution of resources and power to autonomous units of government such as municipalities and local governments and (iii) "delegation" meaning delegation of resources and power to organisations outside the regular bureaucratic structures such as public corporations, development agencies or NGO's (World Bank 1983).

"Devolution" and "delegation" if carried out properly, can make development programmes effective. However, decentralisation in developing countries has mostly taken the form of deconcentration. In India, one major act of "devolution" was the creation of Panchayati Raj and the transfer of resources and power to these village governments. However, this does not mean that decentralisation has improved the efficiency of the administration of rural development. In fact, the benefits of such decentralisation have been mostly enjoyed by the dominant power groups of the dominant political party. Moreover

local governments suffer from a shortage of technical and administrative skills. Also, genuine decentralisation of resources and power can not take place in India unless the entire structure of development planning changes. In decentralised power structure, plans are formulated by the rural people at the grass root level and not imposed from above.

Although this form of planning was envisaged by Gandhi to be suitable for India (Roy and Tisdell 1992, 1995; Schumacher 1962), it could not have been implemented on a national scale in India because of its inherent limitations.

Decentralisation of power can facilitate empowerment of people. Some writers suggest that local communities should be empowered and that this is likely to result in more sustainable development. Local communities are said to be more knowledgeable about the results of local environmental change. The features of normal bureaucracy which include centralisation of authority, especially financial control and standardisation of rules, recommendations and actions may not facilitate the empowerment of people. Hence, it is felt that the participation of beneficiaries in the formulation, implementation and maintenance of programmes is necessary. The justification of the local community's participation is based on the arguments that (i) local people organise best around the problems they consider most important such as in assessing needs and finding solutions; (ii) local people make rational economic decisions in the context of their own environment and circumstances providing appropriately for the risks associated with the change; and that (iii) local participation also ensures voluntary commitment of resources and local control over the quality and distribution of benefits (Yugandhar and Raju 1992).

On the one hand, centralisation of power in some cases has resulted in destruction of environment, loss of forests etc. as reported for Nepal by Mishra (1982) but on the other, decentralisation has sometimes hastened deforestation and biodiversity loss as in Indian

States like Mizoram. Therefore, it would seem that there are advantages and disadvantages of both centralised and decentralised governance structures.

## **2. Property Rights and Environment**

Preservation of the environment, which is the most essential prerequisite to sustainable development, cannot be achieved unless the pressure on forests and other natural resources resulting from their excessive use is eased. But the pressure is unlikely to be eased in the absence of appropriate property rights of local communities. Absence of appropriate property rights is one of the reasons why local communities do not take care of the environment. Appropriate property rights consist of user rights to forests and commons and effective ownership rights to cultivable land. Since the vast majority of the population in Third World countries live in rural areas and since rural women's reliance on renewable resources for providing sustenance to their families is far greater than men's, measures to ensure that rural women enjoy such rights assume crucial importance for good governance. Effective ownership rights to cultivable land by making women more economically independent significantly reduces their need to rely on forests and natural resources and appropriate user rights to forests provide them the incentive to preserve the renewable resources and not to destroy them.

A number of studies (Dasgupta and Maity 1986; Agarwal 1989; Duvvury 1989; Kandiyoti 1992; Roy and Tisdell 1993a,b; Agarwal 1994) have commented on the lack of and the need for women's effective ownership rights to land in India. In West Bengal when the control of forests was taken over by the Forest Department, local people were deprived of the user rights to forests. Due to the lack of economic incentive for conservation, tribals specially disadvantaged by changed ownership and user rights and facing possible loss of

income from the forests and other villagers have no incentive to protect the renewable resources. Hence, they attempt to exploit the forests before the Forest Department does. The nature of ownership and user rights for tribals and non-tribal villagers in West Bengal and in other states of Eastern India is complex and seems to differ from state to state. But an examination of such rights in the central Himalayan region in Northern India can explain the type of rights enjoyed by the villagers in the past, the reasons for and the consequences of the disappearance of such rights.

### **3. Property Rights and Forests in the Central Himalayan Region**

Before the onset of commercial forestry in the early twentieth century to meet the demands for railway sleepers and the manufacture of turpentine and resin from chir tree, the forests were used and managed by the peasantry. Conservation was achieved by customary limitations on users rather than formal management. However in many oak forests, rules prohibited lopping of leaves in the hot weather and the grass cut by each family was strictly regulated. The penalty for the infringement of these rules included boycott and or exclusion of the offender from the forest.

However, in accordance with the Indian Forest Act of 1878 which empowered the British government to reserve for the state's use all forests not on privately owned land, the government refused to recognise traditional notions of community ownership. Restrictions were imposed on the villagers' use of forests to ensure regeneration of felled trees. Villagers were allotted specific quantities of timber, the number of cattle to be grazed were limited and restrictions were placed on lopping trees for fodder and fuelwood. The annual practice of burning of the forest floor was banned. Loss of villagers' customary rights to use forests led to massive popular protests and a huge fire in the commercially valuable chir forests in 1921.

In response to these protests, the government relaxed the restrictions on villagers' access to civil forests. However, in the early 1960s these forests were converted to class I reserved forests and brought under the control of the Forestry Department. The national government reintroduced restrictions on these forests again. But with the disempowerment of traditional authority which began in the early 1920s, the villagers' interest in preserving the forest began to decline and forests began to deteriorate.

Since the class II reserved forests were almost exclusively used by the state for large scale commercial exploitation, the hill people's user rights were severely curtailed and their rights of control were lost. These in turn reduced significantly the villagers' incentive to regenerate and conserve forests. The loss of control furthermore, by raising the possibility in the hill people's mind that the forest resources might be appropriated by others, led to a situation where villagers in violation of the rules exploited the forests for personal gains.

In the next category, there are Panchayat forests which mainly consist of oak trees and have been maintained quite well probably because the Panchayat which regulates the use of forests is formed by the villagers by electing representatives from amongst themselves with the permission of the Deputy Commissioner.

Even in such forests, lopping of leaves for food in the off-season by women in violation of the rules or theft by women of other villages occurs quite frequently.

Somanathan (1991) observes that the Panchayat's administrative style under which decisions regarding the regulation of lopping are taken in closed door meetings by male Panchayat members although women feed livestock and do most other agricultural and domestic works is probably in part responsible for them.

On the one hand, although the state took control of the forest land, forest resources were exploited by politicians and bureaucrats in collusion with businessmen for private gains,

and on the other hand, the disappearance of community control and restrictions on the user rights of villagers reduced the incentive and ability of them to use forest sustainability in the central Himalayan plains.

Community control was based on the force of social customs and norms which enabled community agreement to be reached on the use of forest resources whereas the fear of social boycott ensured that no one violated it.

A different situation has involved experiment with social forestry in West Bengal which was one of the first states in India to introduce social forestry. This is often undertaken on degraded lands. It has been found that in West Bengal with social forestry, which involves communal management of the forest, productivity or income levels, increase in the villages adopting this and bio-diversity rises.

The social forestry programme in India has three main objectives - (i) to protect the environment; (ii) to satisfy the rising demand for raw materials such as fuelwood and industrial raw material; and (iii) to raise the level of income, particularly of rural people. The programme has however been criticised on several grounds (Burgess 1992). It has been argued by referring to the Karnataka Government Statistics that in South India, the programme has made increasing use of farmland for growing eucalyptus which in turn has meant less land is available for the poor. This in turn means declining output, increasing price and rising malnutrition (Shiva and Bandopahayay 1985). However this argument has been strongly refuted with statistical figures by Shyam Sundar (1984). The Forestry Department also rejects the view that farmers were forced to plant eucalyptus and says that a large variety of species were made available to farmers at no cost (Karnataka Forestry Department 1988). However while such criticisms have been made against current social forestry programme in South India, it has also been noted that the area of land used for

growing eucalyptus under the programme is very small compared with those used for other agricultural purposes (Shyam Sundar 1984). Furthermore, one cannot dispute the fact that when better lands are used for food crops under green revolution technology, inferior lands should be used for social forestry which by taking pressure off existing forests, produces beneficial effects on the environment. Nadkarni (1989) argues that handing over the power of forest management to the local people would not necessarily solve all the problems and that even when they had free access to the forest, the poor had hardly shown any more concern for the environment than had private commercial interests.

Support from Nadkarni's argument can, to some extent, be found in Russia. It has been claimed that with the demise of the USSR under the weakened power of the central government of the Russian Federation, the conservation in local areas has suffered. Under the communist regime, the USSR maintained by force a system of pristine forested areas on a large scale and local people were not even allowed to use them for excursion. These were protected by force. Now the central government does not have sufficient finances to afford enforcements. Local people are therefore, encroaching on these protected areas and in some cases cattle grazing is occurring on them. Because of political changes, pre-existing methods of governance in Russia are disintegrating. Thus it would seem that in some cases, decentralisation will favour environmental conservation for sustainable development; in other cases it will not. It is dangerous to generalise.

Traditional rights do not always promote environmental preservation and sustainable development.

A case in point is in the tribal areas of Northeast India. In this region, population growth has been very rapid and income aspirations are rising (Tisdell, 1995). The traditional form of agriculture in the tribal areas of this region is slash-and-burn and property rights to

use land have been devised by tribal groups to support this type of agriculture. This system of rights is very difficult to change.

Given the socio-economic dynamics of the region, intensification and extensification of slash-and-burn agriculture has occurred. As a result, land degradation has accelerated, yields from slash-and-burn (jhum) agriculture are declining and considerable biodiversity loss has occurred (Ramakrishnan, 1992, 1995). The length of the jhum cycle has now shortened in some cases to 4-5 years and a greater land area is under cultivation and exposed to the elements at any one time. This has accelerated biodiversity loss because the composition of available habitats for species has changed and botanical species requiring other than a few years to re-establish themselves are unable to survive.

As Ramakrishnan (1992) points out jhum cycles of 25-30 years are relatively economic as well as in relative harmony with nature. When jhum cycles are reduced to 4-5 years, the yield to effort ratio of this type of agriculture becomes very low and this form of agriculture is relatively uneconomic and unsustainable. The need exists to find a settled form of agriculture which is more sustainable, economic and environmentally acceptable.

Although settled forms of conservation agriculture have been developed e.g. alley-cropping with hedgerows, transition to this type of agriculture is difficult (impossible) given traditional land rights. In Mizoram for example, the Mizos allocate fallowed land to be brought into cultivation by the village to the villagers by ballot. Individuals have no right to particular pieces of land in perpetuity for all villagers have a right to the balloted land. Private rights in the cultivation of a piece of land only exist for a family as long as the area where it is located is under cultivation by the village.

It has proven very difficult for the Government of Mizoram to modify the system so as to encourage forms of settled agriculture. The Government of Mizoram has through its

New Land Use Policy (NLUP) attempted to alienate some land from the tribal system for use by individuals in settled agriculture (Lianzela, 1994, 1995). Success has been limited, but greatest in the neighbourhood of Aizawl, the capital of Mizoram. However, it should be noted that settled agriculture in this region needs to be of conservation-type rather than conventional if it is to be sustainable. The situation is different as far as allocation of jhum lands in Arunachal Pradesh is concerned but land rights are still problematic and an impediment to the introduction of settled agriculture (Roy and Kuri, 1995).

If sustainable development is to be achieved in Northeast India, institutional changes and variations in legal practice in relation to land rights will be necessary. This amounts in effect to a change in governance. At the same time, scientific and technical research should be accelerated to develop improved methods of settled agriculture for the region. It should be noted that not all interest groups in Northeast India want a change in land rights. Some are able to exploit the current situation to their own advantage (Roy and Kuri, 1995).

#### **4. The Interventionist State and Corruption**

Corruption increases the cost of and reduces the benefits from development programmes to the society. As a result, the gap between the potential and realised achievements continues to widen thereby further undermining the country's chances of achieving sustainable development. Corruption grows in an institutional environment which fosters directly underproductive activities. Since political parties, bureaucracy, law enforcement agency and judiciary are all vital components of the state apparatus, it is important to comment on the theoretical perspective of the role of the state in economic development since the 1950s.

The Keynesian revolution by casting doubts on the ability of the free market to achieve optimal results gave a strong boost to economic planning and the interventionist role of the activist state (Shapiro and Taylor 1992). Keynes' emphasis on domestic economic prosperity as opposed to international concern was extended to support national industrialisation strategies in less developed economies. Support for such strategies also came from the writings of Singer (1950) and Prebisch (1959) which argued that due to the differences in price and income elasticities between LDCs and developed countries, raw material exports of LDCs could not pay for their manufactured imports. Their arguments were extensively used by LDCs to justify the application of Import Substituting Industrialisation (IS) strategy in development.

However, persistent attacks against state intervention in the market in the form of quantitative restrictions, licenses etc. came from Bauer (1972, 1984), Buchanan (1980), Bhagwati (1982), Lal (1983), Bardhan (1984) and from many others as well.

Bauer, learning from his experience of Indian development, argued that government failures which manifest themselves in corruption, mismanagement etc. are more important than market failure, and that market imperfections are caused and not cured by government interventions. Hence the state should not interfere with the market mechanism which has the capacity to self-correct. Buchanan specifically raised the issue of economic loss resulting from profit seeking activities of the privileged groups in the presence of the state. Bhagwati consistently argued that under state intervention and a Quantitative Restriction (QR) regime, competition for rents which accrue to the winners of government largesse turns into widespread directly unproductive profit-seeking (DUP) activities such as lobbying, active politics, bribe paying etc. with the result that normal market activity may be replaced by activities seeking government favours. Deepak Lal agrees with Bauer that in an

interventionist state the bureaucratic failure may be worse than market failure. Bardhan extends Lal's argument to the Indian case where he finds that the conflicts between bureaucrats and industrialists over appropriation of rents interact with India's traditional rural-urban disparities to perpetuate stagnation. North (1981) suggests that institutional inefficiency creates within the state, political and economic efficiency which transform the state into a vested interest group. For Lal, one of the most ardent neoclassicals of the 1980s, if the free market system cannot operate then the activist state ought to be prevented from being controlled by special interest groups, if necessary, even by a ruthless and undemocratic government. This has the indirect implication that democracy which can foster the growth of vested interest groups is not compatible with growth.

The following two important points seem to emerge from these discussions:

- (1) corruption seems to grow within rent seeking activities which thrive under inward oriented development which relies on state intervention and market restriction. Therefore under outward oriented development, market restriction is removed, state intervention disappears along with rent seeking activities and corruption.
- (2) The other point is that a ruthless autocratic government will be able to destroy the special interest groups, open up the economy for outward oriented development and eliminate rent seeking activities and corruption.

But neither of these points would be applicable to all the developing economies. For example, to substantiate the first point the reference of East Asian economies is drawn. But in South Korea, state intervention and market restrictions did not completely disappear with the implementation of outward oriented development programmes. Despite corruption and rent seeking during Import Substituting Industrialization (IS) period in both South Korea and

Taiwan, the state intervention significantly improved the state and performance of these economies and made them highly competitive.

On the other hand, the corruption which existed in the Indian economy during the IS period for 34 years from 1956 to 1990 seem to have grown on a massive scale after the opening up of the Indian economy. Therefore, corruption and inefficiency are not always entirely due to rent seeking under a QR regime.

Secondly, a ruthless authoritarian state also consists of individuals who implement the state apparatus to achieve the state's development goals. These individuals can easily become corrupt, become their own vested interest group, creating a trade-off between economic efficiency and state power as well as extracting rents from the private sector which neoclassical political economy failed to recognise (Shapiro 1988).

One important reason as to why the development economists in the 1950s and 1960s failed to recognise these problems seems to be that they accepted the traditional neoclassical separation of the economic and political spheres (Shapiro and Taylor 1992). In the modern state, the traditional separation between economic, political and even judicial spheres seem to be disappearing. Where this happens, the state can assume the character of a predatory state where the ruler or the government more or less systematically employs its position to extract money or resources from its citizens, without providing very much in return. A purely predatory state does not have any interest in economic policy other than fostering its own welfare by systematically devoting itself to creating and capturing rents of various kinds with the aid of government machinery (Lundahl 1996).

Corruption can be found in almost every polity in many forms. In many African countries, it is virtually impossible to get a government job without paying for it, even if the persons are from the same tribe or clan as those who are in charge of appointment and

dismissal (Lundahl 1996). In a predatory state, since corruption originates at the top i.e. President or Prime Minister and other ministers, the magnitude of corruption continues to grow to eventually encompass all bureaucrats and agents of most state apparatus.

Law enforcement agents such as customs and police officials need to be bribed to discharge even their normal duties. Courts pass verdicts in favour of those who pay most. For the school children to pass their examinations, the teachers would have to be bribed. The personnel at state hospitals cater to those who pay them directly. Private sector enterprises factor bribes into their production costs. The presence of a corrupt public sector is in itself an indirect invitation to the private sector to try to secure a proportion of rents being generated by government action (Lundahl 1996).

At every stage of economic activity there seems to exist a principal-agent problem which encourages managers to pursue their own objectives of increasing their benefits even though this reduces the profits of the owners. If the cost of benefits is entirely borne by the owner then the manager has an incentive to increase these benefits substantially. In a predatory state the problem spreads upward in an ascending order from the lowest public official to the head of the state for whom the owner is the society at large.

Thus the existence of such a state produces effects which are extremely negative from the viewpoint of sustainable development.

## **5. Law Enforcement and Bureaucrats**

People are more likely to commit crime if the likelihood of being caught is low and if a bribe is always the easiest way to eliminate the possibility of being caught. In a corrupt system, the damage to the victims of crime will tend to increase as the laws are enforced more leniently because people will be encouraged to engage in criminal activities. In other

words, as the chance of getting caught decreases, more people will be willing to take the chance with the result that the criminal activity and the damage to the crime victims will increase which, in effect, will increase the cost from crime to the society.

When committing crime becomes a norm in a society, it becomes a part of rent seeking activity. There are instances of cases where assets of private individuals have been transferred to the ruler by threats or use of violence or by court decision (Millet 1977).

Inefficient and corrupt law enforcement machinery cannot enforce contractual obligations, uphold and protect property rights and as a result, fail to keep the transaction cost of all economic activities at all levels to the minimum. North (1981) argues that the specification of property rights is the most essential requisite for economic performance, subject to technological change. Referring to the famous Coase Theorem (1937) he observes that clearly defined property rights and zero transaction costs will provide correct incentives to individuals. Such incentives under free trade will lead to efficient allocation of resources among individuals. However, this cannot happen without an efficient and honest law enforcement machinery. North also admits that changes in the institutional factors and in the theory of the state (which was mentioned earlier in this paper), account for the presence and persistence of inefficient property rights.

Bureaucracy and law enforcement agency are interlinked. Bureaucrats cannot properly implement any government policy if the law enforcement agents are corrupt. Corrupt bureaucracy provides a strong incentive to law enforcement officers to be corrupt as well. A bureaucrat will have a strong tendency to be corrupt if expected income from corrupt practice is significantly higher than the normal salary and perks. Such income should also be high enough to more than offset the cost of likely detection (bribes, job loss etc.).

However in a predatory or semi-predatory state, where the government's only interest is to preserve and further its own vested interest rather than to formulate and apply correct economic policies, the bureaucrats at all levels will be corrupt as public offices are used for granting/selling favours at all levels of the state. In such a situation, the likelihood of the corruption of a bureaucrat being detected is smaller and the costs of avoiding detection and punishment are also smaller. When these happen, the gap between the expected income from corrupt behaviour and the normal salary of a bureaucrat also can be smaller for a bureaucrat to be induced to adopt corrupt practice. Such would be the situation in many third world countries where the size of the bureaucracy is very large.

However, in recent years some bureaucracies in some countries are embracing institutional change in the process of implementation of development programmes through participatory approaches under which the state bureaucracy joins hands with NGOs which give local people more control over research and development processes (Farrington and Bebbington 1984, 1993; Thrupp, Cabarle and Zazueta 1994). Due to the widely perceived view that since most state agencies are centralised, authoritarian, formalistic, inefficient bureaucracies and are unable to accept and adopt the imaginative change (Thompson 1995; Mouzelis 1994; Wunseh and Olowu 1990; Korten 1988), it is felt that the state bureaucracy, by joining hands with NGOs and local people in the participatory approach, can implement development programmes which are sustainable.

However, experiments in such participatory approaches to development have been confined to a few rural projects in a few countries. Large scale application of such an approach to most development programmes can achieve good results provided, of course, we assume that all institutional preconditions such as the state is developmental, not predatory, the bureaucracy is honest and efficient, law enforcement agents are honest and efficient, the

representative rural people who are involved in participatory approaches (as the entire village cannot be involved) have no special/vested interest different from that of the rural community at large and the community at large, bureaucracy and law enforcement agents are not politicised. These are essential components of the institutional framework without which good governance and sustainable development may continue to remain an elusive goal. Unfortunately we cannot make such assumptions for most of the developing economies.

## **6. Indian Situation: Some Comments**

The Indian state cannot be classified as either a predatory or developmental state. In a predatory state, Lundahl (1996) argues the government action serves to keep the technology stagnant, to hold back the accumulation of physical and human capital, to prevent efficient allocation and use of resources and to distort the income distribution severely by creating a strong concentration in favour of the members of the ruling clique. In India's case, while income distribution may have favoured the wider body of members and supporters of the ruling clique, on other counts, the effects of state action may not have been so negative. On the other hand, although the promotion of general welfare and improvement in the standard of living of people have always been among its objectives, it cannot still be called a developmental state as it has, since the late 1980s, been paralysed by the action of vested interests which have led to the phenomenal growth of corruption and systematic incapacitation of all institutions fundamental to good governance in a developmental state.

Politics dominates daily life as political parties vie with one another for power and plunder of the public purse. High taxes and a complex system of comprehensive controls

have produced one of the world's largest and most thriving underground economies accounting for around 50 percent of economic activity. Rao's economic reform programs appear to have failed to effect the necessary radical institutional reforms. Only reforms which have been politically easy and not threatened the special interests created by the comprehensive control regime have been implemented. The rents continue to accrue to the most powerful interest groups - politicians, bureaucrats, union leaders and members, public sector employees, selected business groups and farmers. All private property rights are still not guaranteed or protected from government encroachment (Kamath 1993). On the state of institutions and corruption, *The Statesman Weekly* (1996) notes that not in the last thirty years since Indira Gandhi set about institutionalising corruption, abusing power, emasculating the bureaucracy and subverting the judiciary, have governments been willing to accept the fundamental postulate of the rule of law. As for the government of Narashimha Rao, it further adds that it has seen brazen attempts to protect corrupt ministers. There has been interference with the due process of law to protect the family/individuals, and the list is endless. There has been subversion of the Central Bureau of Investigation (CBI) to deny investigation of the First Information Report (FIR) in the Bofors case and to refuse to question the Hindiya brothers, Win Chadha and Ottavio Quattrochi despite the knowledge that each of them received money from Bofors into their accounts. The CBI Chief Secretary confessed to the Supreme Court in Hawala matter that political interference prevented the Bureau from doing their duty. In the last five years, the other corruptions such as the securities scam, the two sugar scams, the telecom scandal, the cover-up in the Hawala case etc. also became intrinsic components of the government (*The Statesman Weekly* 1996). While during Indira and Rajib Gandhi's Prime Ministership institutions were systematically destroyed, public interest was confused with survival and the distinction between public

property and domestic petty cash became blurred, Rao's defence of outrageous corruption and abuse of power and the substitution of one family by another in the process, suggests that everything was being subordinated to tactics not principles, the interests of power not the demands of governance and to the belief founded on an amoral base that everything was fair in politics and power (*The Statesman Weekly* 1996). Apart from these, corruption was also present in significant measure at the provincial and local administration levels. For example, it is common knowledge that in India a thriving parallel (unofficial) market exists in education. Appointments to the position of teachers at schools, students' places in engineering and medical colleges can be purchased and students wishing to do well in their examination and obtain better results need to be customers in this parallel market for education.

## **7. Concluding Remarks**

Despite the neoclassical economists' unflinching faith in the capacity of the free market to cure all economic ills of developing countries, free market policies in the absence of good governance do not seem to achieve much success.

Neoclassicists seems to implicitly believe that free market policies will create the appropriate institutions. But if the state systematically destroys the institutions who will force the state to restore the institutions to their rightful status? Neoclassicals perhaps would suggest that people would regulate the behaviour of the state. But when the state assumes the predatory status, what will happen then? Neoclassicals do not seem to find any appropriate answer other than to say that the neoclassical theory had not conceived of a modern theory of state which incorporated all three powers - political, economic and legal, within the state.

Although there are corruptions in South Korea and Taiwan, governance in those countries is far superior to that in India. The institutional forces in these two countries were significantly influenced by their intellectual and geographical proximity to Japan which strengthened Confucian cultural values of these societies.

On the other hand, India is not in the geographical and intellectual proximity of such a culture as the Japanese. It is surrounded by countries most of which were parts of an undivided Indian sub-continent. Therefore it is in proximity with parts of its own culture. The Indonesian economy, before the mid-1980s, was performing as badly as the Indian economy. But its geographical presence in the most dynamic region of the world economy and its geographical proximity to Singapore would have produced lasting beneficial impacts on its institutions which in recent years has helped it to implement policies. Thus good economic policies will not achieve sustainable development if they are not implemented properly. But effective implementation of policies depends on good governance. Thus, it can be argued that good governance is just as important as and even more important than good economic policies. However, good governance is crucially dependent on the presence of appropriate institutions. Therefore sound economic policies must be supported by appropriate institutions or effective institutional changes for sustainable growth and development. This analysis also has shown that in some cases, good governance can be achieved by decentralised and participatory approaches but in other cases by centralised governance structure. Hence there is no universal governance structure which is applicable to all situations.

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