

## ***Book Reviews***

**Satu Kahkonen and Anthony Lanyi.** *Institutions, Incentives, and Economic Reforms in India*. New Delhi: Sage Publications, 2000. 516 pages. Hardback. Price Indian Rs 595.00.

The economic reform process began in India in 1991. However, the reform agenda is still far from its goals as is evident from low per capita income. Thus, this reform effort has not produced the desired outcome of a faster rate of economic and social development in a meaningful way. It is the premise of this volume that to transform the social and economic landscape, the proposed reforms should be broad-based and multi-pronged which take into account incentives for the stockholders in both the private and public sectors. The institutions are the rules that govern economy and include the fundamental legal, political, and social rules that establish the basis for production, exchange, and distribution. The two editors of this volume have received contributions from a number of authors and the wide range of papers are grouped under five main headings: political economy of reforms, reforming public goods delivery, reform issues in agriculture and rural governance, and reforming the district and financial sector.

The first chapter of the study on the political economy of reforms analyses fiscal policy and suggests that coordination of the tax system between the centre and the state is required for greater allocative efficiency. In addition, rationalising indirect taxes, broadening the overall tax base, and reducing costly activities across all levels of government are suggested. The focus of the second chapter is on the electoral system and the resulting ruling coalitions, and here the author indicates that unstable coalition governments tend to be associated with higher expenditures, a smaller amount of non-tax revenue and higher fiscal deficits. The next two articles discuss the major issue of privatising state-owned enterprises from two standpoints—of national policy and the context of centre-state relations. The recommendations made by the authors include building and strengthening the constituency from privatisation through the dissemination of information, a properly structured privatisation policy, greater capacity building for enterprise management, careful evaluation of the impact of privatisation on efficiency, and investment and public finance.

The section on fiscal reforms starts from the revenue position of the central government. The need for wide-ranging tax reforms implies strengthening income tax, which shifts the Indian tax administration away from technical objectives

(clearance of pending assessments, better tax recovery percentage, and prosecution of technical offences) towards raising additional revenues (detecting and punishing tax evasion, computerisation and improvement in tax-payer services, spread of tax collection offices, reward-based incentive schemes for employees, and improvement in the audit system). The second chapter examines the Indian fiscal problem from the perspective of state expenditure and revenue policies, while the last chapter explores the issue of tax amnesties. The authors suggest that for successful implementation of the fiscal adjustment programme in India, the need is to compress unproductive expenditure and reform the tax system by broadening the base, reducing the rate, lessening the differential, simplifying the tax structure, and getting rid of tax on inputs and capital and interstate transactions.

The two chapters in Section III elucidate India's relatively poor performance with regard to the health and medical sectors, and suggest that integrated health and nutrition programme that are targeted towards vulnerable groups such as children and pregnant/lactating mothers be made much more effective. In addition, there is need for deep-rooted changes in the curriculum for medicine, funding of medical education, and the structure of the pharmaceutical industry.

In the chapter on literacy, fertility, and child labour, the author shows how the institution of child labour can generate poverty whereas the rate of fertility as well as the decision to use children as a source of labour, instead of educating them, are driven by the old age security compulsion. The authors suggest two complementary policies that would contribute to eradication of child labour, the universalisation of access to health-care services in order to reduce child mortality rates, and legislation for compulsory education.

The theme of government intervention, its rationale, its justification for income and food security, and its impact on production and distribution is elaborated in the three chapters in the part of the volume on Agriculture Parastatals and Rural Governance. The first chapter evaluates the role and performance of the Food Corporation of India (FCI) and concludes that the FCI has failed to target the poor consumers and regions. The reform option proposed by the authors includes removal of the FCI from the role of middleman, removal of zonal trade restrictions, and replacement of the current public redistribution system in favour of food stamps or a procurement system. In the case of the Cotton Corporation of India (CCI), the authors are of the view that control on internal and foreign trade of cotton, both imports and exports, should be abolished and the role of this corporation should be limited to that of a marketing agency on commercial lines. But the third chapter is an attempt to tackle the institutional issues from the standpoint of major political reforms that are only in the process of being incorporated fully into Indian rural society, such as the re-establishment of the old Panchayati Raj by accepting females and lower-castes in local government etc. The linkage of local power with financing

resources and interactions between the central government initiatives and the grassroots support are the other issues dealt with in this chapter.

In the section on reforming the industrial and financial structure, the three chapters address several areas which are interlinked and where continued reforms are needed. After discussing the weaknesses of the financial sector in India, the authors support such recommendations as dismantling barriers to the entry and expansion of private banks, deregulating credit allocation, and decontrolling the interest rate, and analyse the new incentives likely to arise as a result of deregulation, suggesting that uncontrolled deregulation is not advisable. The final two chapters of the volume deal with the labour market. The authors compare the labour market policies with those of East Asia and recommend adoption of East Asian Legislation, which is supportive of efficient and flexible use of labour. Incentives can be created for good performances by a flexible wage system, relating bonus and promotion to work performance, a compulsory cooling-off period in case of expected strikes, and retrenchment of workers with compensation. Further, the authors suggest that, without a direct attempt on institutional reforms, particularly labour laws and public sector management, the reform effort will not induce efficient industrial growth in India.

This volume no doubt covers important dimensions of what is called the 'new institutional economics' for successful implementation of reforms, but it ignores some equally important aspects of these reforms. For example, while discussing fiscal reforms, monetary reforms could also have been discussed. With regard to the delivery of public goods, education needs separate analysis. In addition, a little discussion on some other aspects of population welfare, such as housing, water supply, sanitation, etc., would add usefulness to this section of the volume. In the financial sector, discussion of reforms in the capital market is missing. The agriculture section includes a discussion on foodgrains and cotton, yet other cash crops should also have been considered. In the foodgrain sector, the food security aspect needs to be discussed.

To sum up, political will, incentive structure, economic policies, and institutions appear as the key factors in initiating successful reforms. A proper identification of the problems, statistical models, careful quantitative assessment of results, graphic representation, and, above all, examples of international experience of successful reforms make this book a good piece of work in the field of economic reforms—and useful for economists, political scientists, sociologists, and development workers. Politicians may also benefit from it, as a new global pro-market ideology of competition and private enterprise is the road to economic prosperity.

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