6

Towards a Bill of Economic Rights: Public Policy and Governance in the 21st Century

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I. Introduction

Governance—of the corporate and public sector variety—has become a popular topic for research in recent years. Especially since the fall of the Berlin Wall, the role of the state has come under increasing scrutiny—and the state's past behaviour under increasing attack. Policy makers, and policy making organizations like the World Bank, are now fighting a rear-guard battle for existence. Apart from past performance, technological change has also overtaken well meaning policy makers or policy politicians (hereafter referred to as policians). Increased globalization has rendered many a policy—from fiscal and monetary policy in the West to exchange controls in the backward South—impotent. A re-examination of the role of the state, its accountability, and future policy direction is the subject of this paper.

The analysis consists of five parts. Section II deals with the definition of governance—what is meant by it and are there any clues about the definition to be obtained from the parallel issue in the corporate sector. The question of measurement of governance is also taken up in this section—how does one identify good governance and what constitutes bad governance? For example, an exchange control policy might be advocated for considerations of "better" economic growth or "better" institutional development. A noble goal and therefore its introduction may mean "good" governance. But what if such a policy gives rise to large scale corruption? How therefore is the policy to be assessed?

Section III discusses popular academic prescriptions for improving governance e.g. get good management (*The* remedy in corporate sector) or good bureaucrats, and/or lower fiscal deficits (any Washington consensus policy maker). The record of these prescriptions is examined and shown to be wanting—for either affecting governance *per se*, or affecting economic growth.

Section IV revives the Hayekian concept of economic freedom (see, in particular, Hayek(1945). It is suggested that economic freedom, and an associated bill of economic rights, form the basis of the modern interaction between citizens and the state. Empirical evidence of the important role of economic freedom in enhancing economic growth, and significantly decreasing corruption, is offered. These results suggest that the provision and enforcement of economic freedom may be the yardstick by which governance is measured, in India and elsewhere. Section V concludes.

II. Definition of Governance

It is interesting to note that the dictionary has very little to offer by way of a definition. The Webster's 1979 edition has this definition: governance n: government, while the Oxford dictionary goes a bit further: governance: the act or manner of governing. Clearly the recent academic and heated discussion have greater substance to them than a never-ending circularity.

There are hints towards an appropriate definition from the advocacy of governance in the corporate sector. Here, the terms good management and accountability keep occurring. Of the two, "good management" can be dispensed with as one facing an identification (and Identity?) problem. Accountability seems to bring a desirable element into the discussion—the act of governing is not independent of its premises or its consequences—there are rights and wrongs and there are rewards and punishment for good and bad governance.

After starting with a good definition, most discussion of corporate governance seems to have missed the point. For example, in the corporate sector, (and here one is talking of only publicly held firms) there is the convenience of an actively traded stock price. If an individual perceives that a corporate entity is behaving "badly", he/she can sell the stock of that firm. Contrastingly, if the firm is fulfilling the ideals of governance, the choice of buying the stock is open. (Note that disapproval of a firm because it pollutes or employs child labour is not so much a matter of accountability as of law). Since the accountability is with reference to the stockholder, the stock price acts as a perfect indicator of performance. Indeed, to look for other indicators is to go hunting for matches *after* the fire has been lighted. Unfortunately, the option of using price as an indicator of **public sector** performance (and here the term public sector is used to refer to the *non-corporate* public sector) is not available. The reason is straightforward—government services are meant to reflect a social profit rather than a monetary profit. But how is social profit to be measured ? Unlike corporate governance, therefore, there are genuine issues relating to public sector governance.

One indicator of performance is already available—elections. The electoral process provides for a referendum on government policies, and as such, is a mechanism for approving good governance (re-electing the incumbent) or disapproving bad governance (rejecting the incumbent). While useful, elections are too infrequent and cover too many areas to be useful.

III. EXISTING MEASURES OF PUBLIC GOVERNANCE

Economists have not been idle in their search and have come up with two indicators of governance—good management and a fiscal surplus. The arguments for the former are that enlightened governance will lead to higher economic growth, *ceteris paribus*. This is a significant advance over the tautological definition presented in the dictionary. Further, there is an explicit measure by which governance can be assessed.

Wade proceeds to discuss good public management in the context of the high-flying East Asian economies. He cites the high level of education, and corresponding low corruption, of the managers of the public sector as one large cause for their success.

There are two problems with Wade's measure of governance, and his conclusion. The first is particularly relevant for India. While the Indian Administrative Service (IAS) has been widely criticized for its inefficiency, there are few who would argue that the IAS does not constitute the Best and the Brightest that India has to offer. India has not appeared on any analysts good governance radar screen, so one has to conclude that recruiting good people into the bureaucracy is **not** a sufficient condition for good governance. But is it a necessary condition, as Wade seems to assume?

The analysis of whether it is appropriate to assume that good governance is only possible through having in the government stable good managers is beyond the scope of this paper. However, what can be examined is whether good governance contributed to the higher growth rate of the East Asian economies.

Any analysis of the success of the East Asian economies (as measured by a higher growth rate) is plagued by the Confucian fallacy. (Bhalla(1992, 1996)). Briefly, the gist of this fallacy is as follows: (I) it is a fact that the East Asian economies grew at a rate about 3-5 % higher than an average (and most) developing countries for the period 1960-1996. (ii) With this higher growth as a dependent variable, almost any "causative" factor of growth that is relatively common to the East Asian counties (EAC) and relatively uncommon to the other countries will show up as an important determinant. Inadequate attention to identification has meant that analysts have "found" *several* important explanators for the East Asian "miracle". (See Bhalla(1996) from which the discussion below is taken). A brief description of each explanation follows:

Authoritarianism

Excepting Hong Kong and Japan, the EAC countries have had non-free political regimes through most of the development period, 1960-90. It is an observed reality that all these countries have grown at growth rates above 5.5 per cent, 1960-90. Thus, some casual observers have conjectured that perhaps the discipline of authoritarianism is a pre-requisite for growth now and freedom later.

Land Reform

A more equal initial distribution of land (wealth) made agricultural productivity grow which fuelled growth in the urban centres. Four countries—Japan, Korea, China and Taiwan(China)—had land reform in their early development period, and so land reform or income equality can misleadingly show up as an important cause of high economic growth.

Managed Growth

This is one of the most popular explanations. The premise is that government involvement in the private sector helps facilitate rapid growth. The assumption is that many more winners than losers are picked by the bureaucrats. Support for this argument is obtained from the robust empirical observation that all EAC countries (except Hong Kong) had managed government.

High Saving Rates:

A "taste" for higher savings, and investment, has made rapid growth possible. All EAC countries (except Korea in the sixties) have had significantly higher savings, investment, and growth.

Education

The new growth theory's emphasis on externalities to education has revived interest in the explanation that EAC countries grew well because in the early sixties they had significantly higher levels of education. Bhalla(1992) examines a sample of sixty-eight developing countries for which education data were constructed . These countries had an average education level of the labour force of 2.5 years in 1960, compared with 4.7 years for the EAC countries and 2.3 years for the non-EAC countries.

Female Education

As argued by World Bank's World Development Report, 1991 (WDR 1991—Chapters 2 and 3), Bhalla-Gill(1991) and Gill-Bhalla(1992)) the more important externality is not of higher levels of education but rather that of higher levels of *female* education. In 1960, the average level of female education was 1.9 years, with EAC countries registering 3.9 years and non-EAC countries 1.8 years. Bhalla-Kharas-Nabi(1993) advance the argument that female education and increased female participation in the urban labour force was an important explanator of the Malaysian growth experience. Indeed, they suggest that export led growth was often a case of female-led growth.

Confucianism

The reasoning is based on culture—the Confucian countries grew faster because of their cultural philosophy. This view has many followers, and many still evaluate Japanese success (both past and expected future growth) in these non-economic terms.

One can add other arguments to the list. The fact remains that for each study that suggests a particular factor as one explaining the East Asian miracle, there are other studies providing a different explanation. The jury therefore is still out, and the notion that good governance results from smart and well meaning bureaucrats remains to be verified.

The second popular measure of public sector accountability is the fiscal deficit i.e. the smaller the fiscal deficit, the "better" the public governance.

In recent years, this notion has not only gained the status of conventional wisdom, but also the stature associated with being "politically correct". The reasoning is as follows; politicians cannot be relied upon to do the right thing. Therefore, the only way to force accountability on them is through control of the fiscal deficit. If the deficit is narrowed, then almost by definition if not by magic, bad expenditures will be curtailed, and only good governance remain.

Controlling the fiscal deficit is deemed to have an additional advantage towards governance—it can lead to higher growth. Before presenting the empirical evidence, it would be useful to examine heuristically how controlling the deficit helps reduce "bad" expenditure. This remedy has mostly been imported from the West, as well as the recent fashion to have a balanced budget amendment. In the West, bad expenditures are considerably less than most developing countries; in addition, political pressures to *cut* taxes are paramount. In theory, therefore, it can be expected that as the deficit is narrowed, bad governance will get squeezed out.

In theory, in developing countries, one should *not* expect bad governance to be squeezed when the fiscal deficit is reduced. This is because with modernization and development, the tax base in LDC's is increasing significantly over time. Each year, policy measures are announced to increase the tax base, and often times even the tax rate is raised. These measures have the active support of academics and policy makers who are strongly advocating a reduction in the fiscal deficit. The "bad" politicians, rather than the good governance policians, have thus a way out—they can even increase bad expenditures because of the availability of extra funds. Thus, *a priori*, one should not expect the same, (or any) increase in governance to take place with deficit reduction in LDC's as has been observed in developed countries (DC's). To get an analogous response as in the DC's, policy makers should be arguing for a decrease in taxes, and tax rates, along with a decrease in the fiscal deficit. Unfortunately, such recommendations are rare, and such studies virtually non-existent.

There would, however, be some justification to the deficit reduction recommendation if declines in deficits were accompanied by an increase in economic growth. Note that this result runs counter to conventional Keynesian economics where deficits, *ceteris paribus*, are expected to increase economic growth. So if economic growth does respond positively to deficit reduction, then this would constitute good support for the low deficits equals good governance relationship. The thread of reasoning is as follows—with low deficits, government is responsive, bad expenditure is not being financed by controlled interest rates, bad public sector units are not being subsidized etc, and high economic growth results.

While complicated models can and have been built on the relationship between deficits and economic growth, the model reported below is a simple reduced-form policy model. The purpose of the model is illustrative and meant to document whether the levels and changes in fiscal and current account deficits are related to growth in developed and/or developing countries. Two time-periods are chosen: 1981-1990 and 1991 onwards. *A priori*, one would expect that higher fiscal deficits (positive values of fiscal deficits are fiscal surpluses) lead to lower economic growth, and higher current account deficits have an ambiguous relationship i.e. such deficits may either be due to higher consumption or investment. Separate regressions are run for the developed, and developing countries. (Table 1) Data from over 70 countries are used for the time-period 1981-1995. High inflation countries were excluded from the analysis. All data are from the IMF's *International Financial Statistics*.

The results not reported in Table 1 are that the coefficients are unstable if different variables (e.g. money supply growth, real interest rates) are brought into the equation. Nevertheless, the following results emerge:

- Data for developed countries suggest that the level of fiscal deficit is not related to growth in the eighties and *negatively* related to growth in the nineties. The change in the fiscal deficit is positively associated with growth in both time-periods. In the nineties, a movement from 3 % to 2 % in the fiscal deficit leads to an increase in growth rate by about a quarter per cent per annum. Current account deficits show a similar pattern for both periods—the level has a positive effect and the change a negative effect. In net terms, a movement from 2 % to 3 % deficit in the current account has a mildly negative effect on growth.

- Data for developing countries suggests that the lower the fiscal deficit, higher the growth. Improvement in the fiscal situation helps growth in the eighties, but has a negative sign, and zero significance, in the fiscally conscious nineties. The current account deficit variables change signs and significance for the eighties and nineties. A one per cent improvement in the current account (e.g. movement from 5 per cent deficit to 4 per cent deficit) is associated with a decline in the growth rate of about a quarter per cent per year.

Table 1
Growth and Deficits in Developed and Developing Countries

	Constant	*Fiscal Deficit (%GDP)*	*Change in Fiscal Deficit*	*Current Account Deficit (% GDP)*	*Change in CA Deficit*	*R2 (adj)*	*No. of obs. (pooled country-years)*
Developed Countries (1982-90)	2.72 (14.88)	-.015 (-.46)	.239 (2.99)	.082 (2.27)	-.307 (-4.87)	.18	169
Developed Countries (1991- latest)	1.43 (4.00)	-.136 (-2.05)	.452 (5.46)	.132 (1.54)	-1.041 (-4.98)	.40	75
Developing Countries (1982-90)	5.50 (11.40)	.135 (1.56)	.450 (2.85)	.172 (1.82)	-.467 (-4.23)	.17	150
Developing Countries (1991- latest)	4.75 (8.95)	.384 (3.15)	-.079 (-.39)	-.137 (-1.11)	-.253 (-1.81)	.20	72

Notes : The figure in parenthesis denotes the t-statistic corresponding to each variable

The above pooled cross-section time-series analysis can be questioned on the ground that it adds a lot of the intra-country variation. Further, the results are different for developed and developing countries. Consequently, non-econometric evidence from two developing countries, India and Mexico, as well as USA and Europe are offered.

✩ *India: pre-1991 and post-1991*

Prior to the crisis year, fiscal deficits averaged 8.5 % , the exchange rate was over-valued by at least 50 per cent, tariff rates were among the highest in the world, exports had been in a continuous decline since the early fifties, and government intervention was present in extreme form in every aspect of an Indian's consumption or production choices. The reforms came and while the most noise was made about fiscal deficits, it is likely that the most important reforms pertained to opening up the Indian economy. The exchange rate vis-à-vis the US dollar, which had remained unchanged in real terms from 1955 to 1990, was devalued by 20 per cent in mid-1991—and today is almost half the level of 1990-91. Quantitative controls were substantially reduced, and peak tariffs while still inordinately high at 50 per cent, have come down from the "commanding heights" levels of 150 per cent and more. The economic growth rate is on a potential path of 6.5—9.5 per cent, inflation to the surprise of all fiscalists is down to around 6 per cent, and manufacturing productivity growth is approaching double digits. And little of this changed face of the Indian economy has to do with fiscal deficits being brought down from around 8 to around 6 per cent.

✡ *Mexico—Not the Fiscal Deficit*

Mexico provides another example of the futility of using a decline in fiscal deficits as an explanator of good governance. This example is particularly relevant because minimization of the fiscal deficit was an explicit policy goal of the Mexican government. And the goal was over-achieved —before its full blown crisis in late 1994, Mexico enjoyed fiscal *surpluses* for the previous four years. It had low and stable inflation rates and not so high interest rates. And it was the darling of people who know best—the lemmings of Wall Street. But the palatial grandeur was not enough to prevent the devaluation crash that followed—a highly predictable crash because Mexico's problem was structural and non-fiscal in nature—its exchange rate was over-valued by at least 50 per cent.

✡ *USA*

Fiscal deficits have been a major policy issue in the US since the Reagan induced fiscal explosion in the early eighties. Various attempts were made to contain these deficits—from the Gramm-Rudman amendment in the mid-eighties to the recent ill-fated attempt at a balanced budget amendment. US fiscal deficits peaked at 4.5 per cent in 1992 and this year should fall to a low of 1.5 per cent.

Regardless of the lags chosen, neither growth, inflation, or real interest rates have been much affected by the increasing and decreasing trend in deficits in the US. *Economic growth*—steady trend of 2 to 2.5 per cent per annum. *Inflation*—at less than two per cent over the last fifteen years with sharp movements up and down affected by oil prices and not much else. A statistic which surprises many is that the US producer price index (PPI—equivalent to our less accurately named wholesale price index) averaged *less* than 2 per cent during the fiscal explosion decade 1982-1992. *Real long-term interest rates*—in a range of 2 to 4.5 per cent, again with little relationship to fiscal deficits or the change in such deficits. Real interest rates are closely related to economic growth prospects in US and elsewhere, but as just mentioned, there is little relationship of the important macro variables with fiscal deficits, or with the earlier mantra, money supply growth.

☼ *Europe*

Perhaps the most influential policy document in Europe in the last decade has been the Maastricht treaty which mandates that fiscal deficits will have to be lower than 3 per cent of GDP. Analogous to India, and with similar "socialism" policy goals, Western Europe has had a strong tradition of high fiscal deficits *and* distorted economies. The politician needed to be curtailed and therefore policy makers focused on the fiscal deficit. The fiscal gods have disappointed—not much has been achieved in terms of reduction in fiscal deficits, or much else. Germany, France, Netherlands and Austria (the hard-core fiscalists) are all estimated to have deficits above 3.3 per cent in 1996 and 1997. Spain and Portugal will both have deficits higher than 4 per cent and higher than their respective deficits in 1988.

The real problems in Europe lie elsewhere—in the labour market. This market, not unlike India's, suffers from "structural" problems which is a euphemism for heavy and unproductive unionization and protection of inefficient workers. There is little that can be done for the shockingly low Western European growth rates until the important issue of labour rigidities is tackled.

☼ *US—Again*

There was much political and market fanfare about how interest rates would come down in the US if the balanced budget amendment was to pass. The amendment did not pass, and long-term interest rates hovered around six per cent in early 1996. A few months later, news of robust economic growth quickly propelled real interest rates about 1 per cent higher. Fiscal deficit news continued to be golden —in 1996, fiscal deficits in the US will remain below 2 per cent, among the lowest in the world. The decline since 1994 is about 2 per cent, yet the growth rate is higher and inflation about the same—in complete contradiction of the forecasts based on fiscal deficits

IV. Provision of Economic Rights—A New Indicator of Governance

The lack of a good indicator of governance notwithstanding, the issue of accountability is a serious one, especially so in developing countries where the state plays a large role. There should be some *direct* methods by which the performance of the state can be assessed—and analogous to the private sector, its "price" either driven up or down. Elections have been ruled out as too infrequent and too indirect, the fiscal deficit as ineffective in developing countries, and recruitment of good bureaucrats as being a non-sequitur. Bad governance in the long run does lead a state to bankruptcy (e.g. Russia and eastern Europe, Argentina, India (1990-91), Mexico (1994) etc.), but often the punishment of elected officials is too late for the citizens.

There is a way by which the state can be disciplined in a fair and disciplined manner. The analogy is with political rights. If the state violates such rights, there is a legal recourse—the constitution—by which the citizens can hold the state accountable. Civil rights of an individual are also well protected by the constitution. One needs to ask—why are economic rights not so protected by the constitution, at least in India and other developing countries?

This begs the question—what are economic rights? Some definitions are offered below. But it is useful to anticipate those definitions by re-evaluating the definition of governance. A definition noted as obsolete by Webster's dictionary may be relevant—"moral conduct or behaviour: discretion". The last word—discretion—is almost sufficient to indicate both what constitutes bad governance and what should constitute a bill of economic rights.

It is worth identifying as to what ails the public sector—or more directly, what economic actions of the state citizens are most upset about. These reactions/evaluations are universal.

- The state imposes "unfair" taxes, and/or unrealistic taxes. These can range from a 97 % marginal tax rate a la Mrs. Gandhi, to taxing inputs to a computer—keyboard, floppy disk drive, mouse—at differential rates, as is presently the case in India.

- The state unfairly discriminates against exporters relative to importers, or agriculture vs. industry, or the manufacturing sector vs. the services sector etc.

- By imposing unfair and sometimes draconian laws, the state is guaranteeing the emergence and "flowering" of large scale corruption.

It has reached close to unbearable magnitudes in countries like India, Pakistan, Nigeria etc.

- Another form of state action that guarantees large scale corruption is a government monopoly (deliberately) accompanied with inappropriate pricing. What really gives the game away is the claim by politicians that they are subsidizing items like telephones, access to internet, air travel, higher education, sophisticated medicine etc. in order to help the poor. Another form of state action that has little rationale is controls on individual action e.g. exchange controls, import controls etc. These controls infringe on one individual's right at the expense of another.

These examples can be multiplied several times over. That economic rights/freedom is on an equal par with political rights/freedom was pointed out as early as the mid-forties by Hayek (1945) and re-iterated again by Friedman (1962). But the post-war period has been a full bloom period for those that have argued about the virtues of state knowledge and state action. It took the fall of the Berlin Wall, and state bankruptcy consequences of inordinate state involvement in the economic affairs of the individual, to question the role of the state. While the notion of economic freedom is not still politically correct today, there is a more than a reasonable chance that it will be correct, with a vengeance, tomorrow.

The above violations of economic freedom serve as pointers to its definition.

Economic freedoms generally reflect rights provided by a free (competitive) environment e.g. property rights, external and internal openness (right to buy and sell goods to whomever one wishes and at prices the competitive market determines); rights to set up investments without a licence, rights to foreign travel, rights to hire and fire (with due process); rights of domestic and international movement of labour and capital etc.

Omitting the freedom to immigrate, labour freedom means the right to work anywhere in national boundaries and at wages the impersonal market determines, rather than the "face-less" bureaucrat. Capital freedom means the freedom to obtain the highest return on one's capital either domestically or abroad -hence, negative real rates of interest domestically would suggest a need for freedom to transfer one's capital abroad. Produce freedom implies a right to sell abroad at favourable prices, or to import from abroad if import products are cheaper.

Several variables exist to proxy for different components of economic freedom e.g. nature of property rights (land ownership, urban land ceilings, patent rights etc.), high trade taxes, unionization, licensing procedures, capital market controls, minimum wages etc. Each constraint on market behaviour (excepting that of monopolists and actions that ignore externalities) constitutes an infringement of economic freedom.

The above definition(s) of economic freedom point to several components of the bill of economic rights. The amount of economic freedom allowed to the citizenry can be used as a basis for evaluating governance—and on deciding which laws can be deemed illegitimate. What gives the concept of economic freedom greater potency is the fact that on both a heuristic and empirical basis, it can add substantially to economic growth and welfare. It is a well accepted proposition of economics that removal of controls can only increase welfare, not decrease it. It may be the case that according to the welfare function of the *planner*, a situation without controls is worse. But the planner's welfare function is the one that is in question when one is talking about governance.

Several possible variables that can theoretically measure economic freedom have been outlined above. One useful proxy for economic freedom is the black market premium on a country's *official* exchange rate. This variable was first used as an explanator of growth by Scully-Slotje(1991), World Bank (1991) and Bhalla(1992)). This variable can be thought of as a proxy for freedom to move financial capital across borders. Such data are available on an annual basis from the *Pick's Currency Yearbook*. Black market premia can reflect distortions in the exchange rate. It can also reflect the presence of exchange controls and controls on imports—all variables connected with economic rights.

Perhaps the most convincing reason to use the black market premia as a measure of **economic freedom** is because it accurately reflects aspects of *economic control* prevailing in the economy. This was first elaborated upon by Hayek (1944, p.92, italics mine):

"*The extent of control over all life that economic control confers is nowhere better illustrated than in the field of foreign exchanges.* Nothing would at first seem to affect private life <u>less</u> than a state control of the dealings in foreign exchange, and most people will regard its introduction with complete indifference. Yet the experience of most Continental countries has taught thoughtful people to regard this step as the decisive advance on the path to totalitarianism and the suppression of individual liberty.....Once the individual is no longer free to travel, no longer free to buy foreign books or journals, once all the means of foreign contact can be restricted to those of whom official opinion approves or for whom it is regarded as necessary, the effective control of opinion is much greater than that ever exercised by any of the absolutist governments of the seventeenth and eighteenth centuries."

Bhalla(1992,1996) reports results using the black market premia in the context of a "new" growth model. Some of the variables considered in the context of a simultaneous equation model were: initial level of education, initial per capita income, relative prices of domestic traded goods to international goods, political freedom, share of investment in GDP, initial level of inequality, price of equipment investment etc. The black market premium variable was introduced as a "crude" dummy variable—the bottom 25 per cent of countries (sample of 68 countries for the time-period 1973-1988 or 1960-1988) are classified as zero and the remainder as 1. In effect, this meant that those countries with a long run black premia annual average below 6 per cent were thought to have "no" exchange controls.

Of all the variables reported above, the most significant, and robust, coefficient was that pertaining to the black market premia. (See Appendix I for some results) The coefficient was consistently between -1.5 and -2.0 suggesting that a country grows at approximately 1.75 % **less each year** if it has exchange controls. The fact that lack of controls means less arbitrage by the administrators (read corruption) is an additional benefit to the removal of controls.

What economic freedom implies is that the citizens have a right to express their economic desires in anyway they choose too. As long as this freedom does not encroach on another individual's freedom, it should not be interfered with. Note that this definition of economic freedom does not imply either zero taxation, or even a reduced role of the state. There are several public goods that a state has to provide—taxation is needed to finance that expenditure. Further, and especially for developing countries, there is the very important issue of poverty and its removal. The notion of economic freedom presumes that the individual has income and/or assets with which he/she can choose consumption or production possibilities. Part of the definition of economic freedom is that an individual has the (economic) ability to make choices; consequently, the provision of basic needs is the responsibility of the state. The state has a further important role as an umpire/regulator, as one providing equal opportunities, and as one facilitating a level playing field, and as one protecting individual rights—political, civil **and** economic.

V. CONCLUSIONS

This paper has attempted to survey some issues relating to the difficult concept of governance. Evidence on different aspects of governance was presented, and it was suggested that the best way for ensuring governance was to introduce into the constitution a bill of economic rights.

If policy makers delay the provision of economic rights in countries like India, they must realize the explicit trade-offs they are making. For uncertain and questionable gains (see below), the obstruction of economic freedom means that corruption is being officially and explicitly encouraged. The distinction between a drug-dealer who makes possible a crime on the part of another individual is not that far-fetched a parallel from policians who make large scale corruption inevitable.

Policians offer well conceived and noble reasons for delaying economic reform and increasing accountability. There is the argument that the polity is not well prepared for the change, that it will drown in the sea of change unless the state protected them from their own freedoms. Or the argument that the individuals do not know any better while the well managed state has individuals dedicated to improving welfare and **knowing** what policy is good, what policy bad, and what policy has which particular consequence. Intellectual support for these notions is derived from various sources—most importantly, from the notion that "institutional development" is necessary before change can be introduced. In other words, you have to be first imprisoned and taught the rules of behaviour before being released into the cruel world. This view ignores the likely possibility that institutional development is much more endogenous than commonly assumed, and much less exogenous than commonly believed.

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