

Intricacies of Designing and Implementing Public Policy

Book Review of *In Service of the Republic: The Art and Science of Economic Policy Making* by Vijay Kelkar and Ajay Shah

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In Service of the Republic: The Art and Science of Economic Policy Making, by Vijay Kelkar and Ajay Shah, is a book largely in the Public Choice tradition and yet, wants the government to correct its path. It is not clear whether the authors intend the State to correct its course or the public to be more vigilant. Achieving the former objective is difficult for, once the state assumes an expanded role for whatever reason, special interest groups - distributional coalitions as Mancur Olson called them, will resist the course correction with all their might. If the objective of the book is to tell the readers the pitfalls of the State adventurism, the rational ignorance of a large majority of people makes course correction challenging. All the same, the book is an important contribution as we get to ask basic questions on the role of the government.

While much of the mainstream literature in public policies assumes that the government is a benevolent entity and therefore, will have to provide answers to all our problems and when it does not, the analysis turns normative (moralistic). This book, based on several years of experience takes the position that governments, by nature, impinge on individual freedoms and therefore, their role should be restricted to interventions only when there is a market failure. The book educates us on the questions to be raised to justify the extent and nature of intervention and these are: (i) Are there enough market failure justifications for the for the government to intervene? (ii) What is the nature of market failure and therefore, the nature of intervention required? (iii) Does the government have the capacity to effectively intervene to correct the market failure and if it does not have, what needs to be done?

This is an important book for giving fresh insights into a number of public policy matters. It explains that government intervention is needed when the markets fail, and the role is to facilitate efficient functioning of markets and not to compete with them. The government's capacity to compete with the markets is limited nor is the incentive structure for such a competition is conducive. Furthermore, the nature of market failure can be different and therefore, the interventions required would be different. Provision of public goods such as establishing safety and security of the people, ensuring property rights and enforcement of contracts is a clear case of market failure and that the government must do through public spending. Redistribution is another area where markets fail, but the government must work on the right mechanism to achieve this. Reducing the incomes of the rich does not necessarily increase the income of the poor. Nevertheless, direct anti-poverty interventions and enhancing the human capital of

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the poor does require public spending. However, market failures like ensuring fair competition in the market preventing exploitation arising from asymmetric information need to be addressed through effective regulation rather than direct participation by the government in the market. Even when market failures warrant government intervention and the nature of interventions is appropriately designed there are capacity constraints resulting in implementation failure. The short point is, policy making is a serious affair, but they narrate the economics and politics of policy making in a simple manner intelligible to the common person and bring out several myths arising from unintended consequences of wrong policy interventions. This is an everyman's guide to economics and politics of policy making. They take us through the history of development and bring in several anecdotes from experiences to drive home the point. The one on the experience of providing incentives to control rat population makes hilarious reading.

The book begins with the role of the State. The mainstream view is that the State is a benevolent entity meant to enhance the welfare of the people and therefore, it has an expanded role in directing and participating in economic activities. Despite the ill effects of dirigisme manifest in the first 40 years of independence in India, the common man's demand is that the government should solve any problem she faces! One is reminded of the fascinating discussion led by two great stalwarts in Public Finance – Richard Musgrave and James Buchanan – University of Munich in 1998 – one a staunch supporter of state intervention and another who firmly believed in the view that the State essentially constrains the freedom of people recorded in the book, “Public Finance and Public Choice: Two contrasting views of the State”. Musgrave believed in the goodness of the State and wanted the interventions in many areas for “merit good” reasons even when the markets can provide them. Buchanan, while agreeing that the State has a role to provide public goods and redistribution which the markets fail to do was emphatic in stating that he does not understand the concept of “merit goods”, and once the redistribution is done, the matter should be left to the people to choose what and how much they would like to consume

The authors question the view that government is a benevolent entity: It is an evil necessary to intervene when the markets fail. It constrains individual freedoms. It has the capacity and power to coerce, inflict violence and constrain individual freedom. The role of the government comes in the cases of externalities, asymmetric information, market power and public goods. Incentives matter; You require checks and balances to control the expansion of the government, Prices should be determined by the markets and the role of the government comes in only when there is the problem of asymmetric information, missing markets and skewed market power to ensure fair competition. Their analysis leads them to conclude clearly that the sick enterprises must die – should not be kept in the ventilator for ever. there should be a clear exit route'; Interventions result in ripple effects; Any rationale for intervention or its assessment must take into account the general equilibrium effects. Lack of understanding and inability to look at general equilibrium effects lead to implementing policies that will have opposite of intended outcomes. Start with the data and don't rush to policies without analysing the data.

Some interesting examples of wrong form of interventions are easy to point out. APMC's tend to increase the power of traders and middlemen and restrict the farmers from selling in other markets. There are several examples of wrong types of interventions such as Land Ceiling Act, Rent Control Act, Bank Nationalisation, Small Scale Industries reservation and other incentives, drug price control and increased protection. Such examples may easily be multiplied. They also point out that often, wrong type of interventions take place due to constraints such as lack information, knowledge, resources, administrative capacity and voter rationality. Once recognised, efforts can be made to bridge them. But what if the intervention and its poor design is due to distributional coalitions?

This is an important contribution and a necessary reading not only to those involved in serious policy making but also a general citizen who is at the receiving end. It is a serious book, not meant for bedside reading because, its 374 pages makes it too heavy to hold in the hand lying on the bed. On a more serious note, it is hoped that the policy makers listen to what the authors have to say and general readers get sensitised on wrong policy interventions.

Vijay Kelkar and Ajay Shah, *In Service of the Republic: The Art and Science of Economic Policy Making*, Penguin Books 2020; Rs. 615 (Hardcover), Rs. 339.63 (Kindle Edition).