

ILLUSTRATION BY BINAY SINHA



Corruption and dynasties

Neither political nor business dynasties are necessarily malign, says Deepak Lal

In this column I shall discuss two themes that have become a regular part of a very confused Indian political discourse: corruption and the role of political and business dynasties.

There are two ways in which one can obtain an income: by “making” or by “taking”. The first refers to the usual economic means of earning a living in a competitive marketplace: the stuff of economics, and little more needs to be said about this benign process.

The second is a major feature of politics, and will be my main concern. Given the necessity of granting the state a monopoly of coercion and the power to tax (to prevent Hobbesian anarchy), it is best seen as a legal and essential Mafia-type protection racket, however decorously clothed. For, through the provision of order by providing the essential public goods of law and order, a functioning state aids the process of “making”. But given its power to tax, there is always the temptation to fleece the fattened “prey” by maximising the state’s net revenue to be used for its own purposes. This potential difference between the “takings” (which can be direct or indirect) and the genuine need for the public goods needed for “making” is the essential source of corruption.

This implicit surplus can take many forms: from the direct collections of monarchs to be used for their palaces, wives and mistresses, to the rent-seeking of modern day polities. The essential dilemma of politics – to which no one has found a solution to date – is how to prevent the state from “taking” more than is needed for maintaining the order that facili-

tates the “making” of its citizens, and using the surplus for its own purposes – whether personal appropriation or redistribution to buy “votes” – or, in short, to end corruption.

The link between corruption and dynasties is provided by another fundamental aspect of the human condition: the selfish gene. This may moderate the predatory “takings” by the state. Humans being mortal, it would be rational for a predatory incumbent to raise his/her takings from his/her prey in the later part of his life, even if this threatens his/her ownership of the natural monopoly – which is the state – from internal or external contestants. But if the individual predator cares about his/her genes embodied in his/her progeny, he/she will wish to create a dynasty where his/her natural monopoly in coercion is passed on to his/her kin. This dynastic motive will then prevent the ruler from acting myopically, allowing the natural monopoly to become contestable by raising the takings above the long-run sustainable level. But as this level of naturally sustainable surplus (or rent) and the accompanying tax burden is necessarily uncertain, it is as likely that, *ceteris paribus*, cycles of fiscal predation and thence the rise and fall of dynasties could emerge, as has happened in India for millennia (see my *The Hindu Equilibrium: India c.1500 BC-2000 AD*, Oxford, 2005, available on OSO). The recent political turmoil faced by the incumbent Indian dynasty could be seen as part of this historical cycle. But these dynasties may not necessarily be malign in their prime from the viewpoint of citizens (the “prey”).

The same dynastic motive underlies the rise and fall of business dynasties involved in the relatively benign processes of “making”. Nor is the role of such dynasties in the economy necessarily to be decried. One of the major problems of controlling enterprise emerges once the capital requirements for setting up a business grow beyond the means of small owner-managers. The rise of shareholder capitalism through joint-stock companies allows the agglomeration of smaller bundles of wealth dispersed among the population to overcome this problem. But this raises the well-known agency problem whereby the dispersed shareholders cannot control a management set on using the firm’s profits for its own ends rather than those of shareholders. Those business dynasties with a large agglomeration of wealth that succeed in maintaining a link between ownership and control through various devices have been able to overcome this problem.

All dynasties, however, are dependent upon the genetic lottery, which determines the quality of the successors of the founding dynast. With the reversion to the mean in the available genetic pool, the quality and ability of the successive generations of the dynasty cannot be assured. Hence the usual pattern of “rags to riches to rags” within a few generations of most business dynasties.

If neither political nor business dynasties are necessarily malign, the interaction of their respective entrepreneurs could be, if the political “takers” co-opt the business “makers” by providing them a share in state-generated rent-seeking. This is most likely if the survival of the incumbent political predator depends upon obtaining a share in the “makings” of the business entrepreneur. If, as in India, the election rules set limits on the financing of electoral candidates, there is a potent incentive for existing and potential political incumbents to use various tactics to obtain illegal contributions from legitimate businesses. It is an open secret that in India the necessary electoral expenses greatly exceed those legally permitted. So, all electoral aspirants need black money, raised by themselves and their families or their parties. This is the ultimate source of the pervasive corruption in the polity being decried. Going after foreign bank accounts, corrupt officials and bureaucrats, or setting up Lok Pals, cannot cure this malaise given the powerful incentives to generate and obtain these rents to gain or stay in power.

Instead of moralising and hoping to change human nature, there are two major means of reducing some of the incentives for “taking”. First, to limit policies giving discretion to officials. Thus, the recent Budget will have raised the dowries of entrants to the Indian Revenue Service! Second, to follow the recent example of the United States, where all political donations – of any size, and from and to anyone – are legal, but have to be declared. This would remove the ultimate source of corruption, to which even the most honest politician, *faut de mieux*, has to turn a blind eye.