Book review

FISCAL AND MONETARY POLICIES IN DEVELOPING COUNTRIES: STATE, CITIZENSHIP AND TRANSFORMATION

By Rashed Al Mahmud Titumir, Routledge, December 24, 2021, ISBN:9781032063461, 302 pages, Price: $128 (Hardcover), $39.16 (eBook)

Rashed Al Mahmud Titumir's book, *Fiscal and Monetary Policies in Developing Countries: State, Citizenship and Transformation,* is a testimony on the role of fiscal and monetary policies in state-building in developing countries. An economist from an advanced economy may be perplexed by the argument that fiscal and monetary policies contribute to state-building, because conventional thinking limits the role of fiscal and monetary policies in state-building. The book has provided food for thought for those who are intrigued by the role of fiscal and monetary policies in state-building in developing countries.

Fiscal policy can play an unwavering role in promoting economic growth, diversifying the economy, enhancing productivity, reducing poverty, improving living standards and reducing inequality in income, wealth and social status. Tax policy, public expenditure policy and public enterprises policy are pillars of fiscal policy that contribute to state-building in developing countries.

The role of monetary policy is crucial in state-building, by making a robust financial system and financial reform policy, growth-promoting interest rate and credit policy. Monetary policy contributes to stabilizing the economy through influencing money supply/credit, interest rate and exchange rate. Additionally, monetary policy tools can contribute to financial inclusion and expansion of citizens' access to credit and financial services in the formal financial sector in developing countries.

Conflicting objectives vs. complementarity of fiscal and monetary policies

Both fiscal and monetary policies face trade-offs, but together they complement each other. Developing countries face a tricky situation in the choice of fiscal and monetary policies. Politicians and policymakers have to reconcile conflicting objectives in a broader context that influences fiscal and monetary policies. Higher and faster economic growth and the equitable distribution of income are the crucial conflicting objectives in the fiscal policy regime. Similarly, economic growth, price stability and foreign exchange rate stability are conflicting priorities in the monetary policy regime.

The role of fiscal policy shot to prominence twice in recent years – first after the 2008 financial crisis and second during the COVID-19 pandemic – which challenged the neoclassical counter-revolution since the 1970s. The pandemic fractured pre-existing structural rigidities in developing and developed economies, and the author observed that this necessitated "a rethinking of fiscal and monetary policies—the main vehicles for relief, recovery, and reconstruction" (p. 269).

The author also says, "Keynes and post-Keynesians failed to incorporate politics and political processes into their analysis. Since politicians seek to benefit themselves rather than the whole nation or national economy through fiscal and monetary policies, this theory argues that it creates a worse economic performance than occurs under a free market" (p. 54).

The author emphasizes the existence of both formal and informal institutions in the political and economic sphere. Informal institutions drive the political settlement developed with the networks of political power in the economy in developing countries. He writes, "Political settlements are a significant determinant of the direction of fiscal and monetary policies, distorting the linkages between factors of production and labor vis-à-vis capital returns in the circular flow" (p. 61).

The choice between fiscal and monetary policies must be based not only on economic but also on social and political considerations. Both sets of policies impinge on effective demand; they are likely to produce significantly different effects on a community level. Policymakers need rigorous empirical studies on the distributional consequences of fiscal and monetary policy instruments (p. 118).

There is a consensus among economists that macroeconomic policies generally serve the ruling class's interests in developing countries. Thus fiscal and monetary policies should be taken less as economic policies but more as tools for a social contract and political settlements.

The author claims that his book contributes to a road map for transformation and sustainable fiscal and monetary policies catering to a citizen-state relationship. The author also captures the idiosyncrasies of state-building, the state-citizen relationship, equality, equity, fairness and welfare, economic growth, jobs creation, price stability, formal and informal institutions, and political settlement in developing countries.

The points of contention

The reader can find several trivializing issues in the book.

First, many studies suggest that only 50 to 60 per cent of the population in developing countries have access to financial services. According to the World Bank, 31 per cent of the population globally in 2021 still did not have access to formal financial services. The book could have included the necessary discussion on how economic growth, distribution and state-building can be achieved with the help of monetary policy in developing countries.

Second, the author criticizes Thomas Piketty's $r>g$ mathematical formula for economic inequality. Piketty views that income inequality results from the situation when returns on capital r exceed the economic growth rate g. However, readers will find no convincing explanation of why economic inequality has increased in developing countries despite their low economic growth, low total factor productivity, low returns on capital and progressive taxation.

Despite the decolonization of developing countries, the author claims that the colonial legacy of an extractive fiscal policy has continued. However, Nepal, a least developed country which was never colonized by any Western power, has the most extractive fiscal policy among developing countries, reflected in a high tax-GDP ratio. The author's generalization of colonial legacy as a reason for extractive fiscal policy in developing countries does not hold in the case of Nepal. The question to ask is: should Nepal be considered an exception rather than the norm?

Former editor-in-chief of *Foreign Policy* magazine, Moisés Naím, writes, “Inequality will continue to rise in societies where ‘c > h’. Here, ‘c’ stands for the degree to which corrupt politicians and public employees, along with their private-sector cronies, break laws for personal gain, and ‘h’ represents the degree to which honest politicians and public employees uphold fair governing practices.”

The author discusses corruption as an event of tax evasion. However, the biggest threat to state-building in developing countries is fiscal and monetary policy corruption. Corruption is the leading cause of sluggish economic growth and growing income and wealth inequality and one of the primary sources of social unrest in developing countries.

The book is a good read on the role of fiscal and monetary policies in state-building for scholars, students, policymakers and politicians.

NOTE ON CONTRIBUTORS

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