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Political Stability and Economic Growth: Reflections on Indian Economy

Shreya Raval* and Prakash Salvi**

ABSTRACT

Efficient economic policies and their implementation are only sufficient conditions of assured economic growth. However, the type of political structure and stability of the same form the necessary conditions of economic growth for any nation. The political conditions should be ideal and conducive to the nature of the economy. This paper attempts to define political system and its inter-relation to economic development. It further progresses to define political stability under the adopted political system of an economy. It also attempts to explain a state of political instability and its channels of transmission on economic growth. Further, an attempt to define various measures of political stability is made and the significance and impact of the variables is mentioned. Political polarisation in India is higher as it has a multi-party system with two major political parties and many regional dominant parties. Thus, it is difficult to take a unitary view on the question of political instability and economic growth.

Keywords: Political system; Political stability; Political instability; Democracy; Economic growth.

1.0 Introduction

Different nations grow at different rates. Some nations have empirically shown higher growth rates and then have deteriorated in their growth paths whereas other nations have not shown an impressive growth before but have risen like a phoenix. These growth stories are a reflection of not only effective economic policies but also a strong political will. (Acemoglu and Robinson, 2012) The political will is translated as political stability or political instability of a nation. It reflects nation's economic growth performance and thus, determines the growth path. Therefore, it becomes essential to understand political stability and its impact on the economy.

*Corresponding author; Research Scholar, Department of Economics, University of Mumbai, Mumbai, Maharashtra, India. (Email id: shreyab77@gmail.com)

** Associate Professor, Department of Economics, D. G. Ruparel College, Mumbai, Maharashtra, India. (Email id:prakashsalvi.eco@gmail.com)

In the first instance, an attempt is made to define political stability in all its forms. Also, political instability is defined as it is a contrary phenomenon to political stability and understanding its impact is also crucial.

2.0 Significance of Political Factors in Economic Growth

Within the study of economic growth, a belief developed that an exclusive reliance on so-called economic factors failed to explain why some countries had developed economically and others had remained poor (relatively and/or absolutely); why some nations that had developed early fell behind areas that developed later; and how gaps between nations have greatly widened over time, whatever magnitudes of differentials existed in earlier times. These intellectual failures meant that economic factors are necessary but not sufficient conditions to spur economic growth of a country. A broader range of determinants of change act in tandem to ensure this growth. Along with economic factors, political factors also play an important role. The working of the political system of the country has a dominant role in the design and implementation of economic policies. Thus, there is some overlap in the studies of the two disciplines – economic growth and political system. The determinants of economic growth not only include major economic factors but also the analysis of the rise, stability, and persistence of various political structures, such as authoritarian and democracy. (Engerman and Sokoloff, 2008; Acemoglu and Robinson, 2012; Bernal-Verdugo et al, 2013)

The political system adopted by a country decides not only the distribution of political power but also the distribution of economic power among various segments of the population. An instable government's decision-making is short term in nature. It results in weak macroeconomic policies. These new policies are directly proportional to political polarisation in the economy. These short term policies create volatility and thus, affect the economy negatively. (Barro, 1994; Younis et al, 2008; and Aisen and Veiga, 2011) The change in the regime brings about changes in the economic policies as every new government brings in new policies. Hence, political factors do play a critical role in economic growth of the country. Among the political factors, political stability is the crucial one.

3.0 Political System

In order to define political stability, we first have to understand the political framework of a nation. Every country is governed by a set of norms and guidelines to take political decisions. This set of norms and guidelines constitute a system. A system

creates required institutions and machinery to work efficiently and effectively. This arrangement of institutions and network created to take political decisions can be called as political system. Establishing 'political system' is essential for each society to determine the duties and responsibilities of citizens as well as the rights and privileges and also to maintain recognized procedures for allocating valued resources in large complex societies. Thus, defining a political system is essential to determine the kind and extent of economic progress that a country can achieve after adopting it. (Mondal, 2014)

Following are some of the definitions of political system given by various individuals and institutions. This helps us in understanding the concept more accurately.

- Gabriel Almond and James Coleman (1960) defines, 'Political system as a system of interactions to be found in all independent societies which performs the functions of integration and adaptation by means of legitimate physical compulsion.'
- The Concise Oxford Dictionary of Sociology (1994) defines a political system as, 'a system in any persistent pattern of human relationship that involves (to a significant extent) power, rule and authority. It is a collection of political institutions (e.g. government), associations (e.g., political parties) and organizations performing roles based on a set of norms and goals like maintaining internal order, regulating foreign relations, etc.'
- The encyclopaedia Britannica defines a political system as a set of formal legal institutions that constitute a "government" or a "state." This definition is adopted by many studies of legal or constitutional arrangements of advanced political orders. However, more broadly defined, the term 'political system' comprehends actual as well as prescribed forms of political behaviour. It explains not only the legal organization of the state but also the reality of how the state functions. Furthermore, the political system is also seen as a set of "processes of interaction" i.e. one of the sub-systems of the social arena interacting with other non-political sub-systems, such as the economic system. Thus, the importance of informal socio-political processes is highlighted and the study of political development is emphasised.

In literature, political system is synonymous to 'political institutions'. The glossary of African History broadly defines 'Political institutions' as organizations which create, enforce, and apply laws; that mediate conflict; make (governmental) policy on the economy and social systems; and otherwise provide representation for the populous. Examples of such political institutions include political parties, trade unions, and the (legal) courts. This broadly comprises of all the arms of the State machinery. A formal definition of the term 'Political Institutions' can also be given as a recognized

structure of rules and principles within which the above organizations operate, including such concepts as the right to vote, responsible government, and accountability.

On the basis of the above definitions, the following three main functions of a political system can be described as:

- (i) To maintain integration of society by determining norms (Decision-making, also called as Executive),
- (ii) To adapt and change elements of social, economic, religious systems necessary for achieving collective (political) goals (Legislative),
- (iii) To protect the integrity of the political system from outside threats (Judiciary).

These functions can be re-arranged into two categories:

- (i) Input functions – interest aggregation, interest articulation, political communication, and political socialization;
- (ii) Output functions – rule making, rule application and rule adjudication. (Almond and Coleman, 1960 and Eisenstadt, 1966)

Political system (or regimes) can broadly be classified as ‘Authoritarian’ and ‘Democratic’. In *authoritarian* regime, the power is concentrated among few elites of the society. There are two main categories of authoritarian system – Totalitarian system and Oligarchic system. Authoritarian regime negatively affects economic growth, thus, it deviates the country from its development path. However, this is not true for pro-growth authoritarian regimes like Singapore and former Hong Kong. (Acemoglu and Robinson, 2012) In *totalitarian* system, the state controls and regulates all phases of life which are considered essential for perpetuating its power and for carrying out programmes arbitrarily. It is the most extreme form of authoritarianism. Under this system, the government dictates the society’s values, ideology, rules and forms of government. Societies having totalitarian system do not permit dissent. The centralised authority always dominates over the autonomy of individual or sub-groups within the society. Mussolini’s Italy, Hitler’s Nazi Germany and Stalin’s Soviet Union are often quoted as examples of totalitarian states. Totalitarian states are ruled by one political party that organizes the citizens into a unified group. In practice, the state is represented by a politically powerful ruling class or elite that dominates all other interest groups. (Engerman and Sokoloff, 2008) On the other hand, in *oligarchic* system, a small group (elites) rules and holds supreme power over a larger society. Countries like former Soviet Union, North Korea, China and Venezuela are vivid examples of oligarchic system.

In *democratic* system, people govern themselves through elected representatives, who, in turn, form the government. Democracy, in simple words, is described as a state with free competitive elections. (Alesina and Perotti, 1993) In a broad sense, democracy

is a way of life in which an individual feels free to act within accepted boundaries of norms and also equal in respects of his/her rights. In democracy, elections are contested between two or more parties. The party having absolute majority or majority attained through alliance of the parties, form the government and assume power from the predecessor. (Engerman and Sokoloff, 2010) A matured democracy can be defined as ‘inclusive and unbiased open political regime’, where the state distributes power broadly, results in inclusive, highly progressive and strong economic forces that propel the nation into a converging path of development. (Acemoglu and Robinson, 2012) This growth further deepens the roots of inclusive political institutions.

4.0 Meaning of Political Stability

The political system of a nation plays a very important and a decisive role in economic growth. In order to control the distribution of power in the society, there is a need for a centralised and powerful state. The state would be powerful only when it is politically stable. (Acemoglu and Robinson, 2012; Mondal, 2014) State political system is essential for efficient, effective and smooth progress towards economic growth. By stability of the political system, it is meant the stability of the various arms of the State machinery. Every political system has three major branches (arms) – the decision making branch, the implementation (Executive) branch (state machineries that implement the decisions taken by the Government) and the protection (Judiciary) branch. In most nations, generally, the decision-making branch changes after a specific period; while the Judiciary branch is kept autonomous to maintain law and justice. As Judiciary functions independently, it is not taken into account when stability of the political system is considered. For this purpose, only decision-making branch and the implementation branch are considered vital. The legislature and the executive branches of the system work hand-in-hand. Strong and stable government can design bold policies. These policies can be implemented effectively if the government is strong and stable. Hence, stability of the political system may mean stability of the government that designs and implements the policies to rule the State. If the society is to function orderly, then people must obey the rules that are made. The political institution determines and enforces the laws and punishes those who disobey them. (Alesina et al, 1992, Feng and Chen, 1997; Acemoglu and Robinson, 2012)

Political stability largely means the stability of the regime (or government). The type of the regime has a deep impact on the working of the system. It also affects the stability of the decisions made by the State. Under authoritarian regime, political stability is defined as ‘persistent economic policies which result in economic growth’

(Alesina et al, 1992 and Younis et al, 2008). Political stability under democratic regime can be defined as ‘continuity of government policies resulting in economic growth, even if there is a change in the Ruling Party at the centre’. (Salvi, 2005)

Thus,

(i) Political stability is the ‘longevity of the regime and/or continuity in its policy’ – be it democracy or authoritarian rule. (Alesina et al, 1992; Alesina and Perotti, 1993; Barro, 1994; Salvi, 2005; Persson and Tabellini, 2006; Younis et al, 2008; Aisen and Veiga, 2011)

(ii) In a situation where different governments at the Centre have identical political ideologies, and hence, their economic policies are also the same; then changes in the government may not signify political instability. (Alesina et al, 1992; Alesina and Perotti, 1993; Barro, 1994; Salvi, 2005; Persson and Tabellini, 2006; Younis et al, 2008; Goldstone et al, 2010; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2013)

(iii) Broadly, it can be considered as prevalence of a constitutional order in the country. (Bildirici, 2004)

In the context of growth, political stability is also understood with reference to specific kind of stability: the rule of law, strong institutions rather than powerful individuals, a responsive and efficient bureaucracy, low corruption and a business climate that is conducive to investment. Weak institutions result in weak governance, and the personal interests of public officials overrides the collective interests rendering the state powerless to implement the necessary reforms. (Shepherd, 2010) At present a few African economies are a vivid example of totalitarian states. There has been a stable but weak and fragile authoritarian regime in a few countries like Zaire, Uganda, Rwanda and Gambia. Even though there is continuity of regime, the rulers are incapable in implementing economic policies. Thus, the result is faulty economic growth. In fact, it is usually observed that stable and strong governance seems to be crucial for growth. Governance is different from politics and it may not make sense to fuse them. (Shepherd, 2010)

Political stability in terms of strong and effective government acts as a catalyst for economic growth. It can be said that rapid economic growth requires both a stable political system and a sustainable regime, which is capable of ‘adjusting’ to circumstances by changing the party in power or the ruling coalition of parties in a constitutional context. (Feng, 1997) Though political stability is essential for economic growth, sometimes political stability becomes difficult to exist; especially in countries where there are regular coups and conflicts. In such cases, political instability can be taken into consideration. Absence of political stability is called as political instability. It can be defined as ‘breakdown of institutional patterns of authority by either replacing or

overthrowing by violence or by injury to person or property; resulting in a change in the political policies or sovereignty of the political authorities.’ (Alesina et al, 1992)

The events like murders, strikes, chaos, demonstrations against governments, guerrilla warfare, revolutions, government crises, coups, constitutional changes, ‘declaration of emergency’ in democratic regime, regime changes, assassinations, cabinet changes, genocides, coup attempts (successful or not), riots, border wars, civil wars and disfections (predation of opposition) in the state are the indicators of uncertainty or instability in the state and their frequency of occurrence in the state reflect the extent of political instability in the state. Hence, the total absence of these variables, and/or lower frequencies of these variables can technically be called as extent of political instability in the state. (Alesina et al, 1992; Feng, 1997; Bildirici, 2004; Salvi, 2005; Persson and Tabellini, 2006; Aisen and Veiga, 2011)

Alesina and Perotti (1993) define political instability in two ways – executive instability and social unrest and political violence.

- (i) *Executive instability* refers to ‘propensity to observe government changes’; either in a constitutional (take place within the law) way or in unconstitutional (social unrest) way. ‘Propensity’ to executive changes is different from actual frequency of changes; i.e. propensity measures probability of a change in the executive and it is dependent on several economic, socio-political and institutional variables.
- (ii) *Socio-political instability* can be measured by an index capturing various phenomena of social unrest. Social unrest and political violence is dependent on variables of growth, savings and investment.

Political instability may also be a direct result of higher political freedom in moderately democratic states. If there is higher political freedom, demands of the citizens increases and hence, may result in strikes, lock-outs, demonstrations against the government, etc. This affects productivity of the nation. Thus, higher the political freedom, lower will be the growth rate of the economy in moderate to perfectly democratic regimes. (Barro, 1994; Persson and Tabellini, 2006; Engerman and Sokoloff, 2008) Political freedom is also frequented by spontaneous changes in the policies of the Ruling Government on popular and political demands, or uprooting of the Government. Hence, political instability is the result of chaos that is created in the economy by extractive political institutions.

4.1 Significance of political stability in economic development

Political instability hampers economic growth. Mass violence, coups, civil and political disorder, physical threats to workers and entrepreneurs engaged in productive activities can have direct effects on productivity and rate of return of investment. In

order to increase income and output, short and long run policies and political stability are essential. (Alesina et al, 1992; Cukierman, Edwards and Tabellini, 1992; Feng and Chen, 1997; Bildirici, 2004; Acemoglu and Robinson, 2012)

It is also observed that irregular political changes, such as coups, assassinations, etc. instil a great amount of uncertainty into the market. This results in market-failure. The market failure slows down or retards economic growth as economic agents anticipate a loss of their investments in the markets i.e. an increase in the cost of doing business. Also, higher propensity to executive changes is associated with policy uncertainty, and in some cases, with threats to property rights. (Cukierman, Edwards and Tabellini, 1992; Feng, 1997; Aisen and Veiga, 2011) Moreover, the disturbance in the regime leads to discontinuity of economic policies; shakes consumer confidence and makes it difficult to reach to coherent decisions. This may hinder the implementation of policies required for structural changes. (Alesina and Perotti, 1996)

Political stability, thus, has a direct and an indirect effect on the economic growth. The direct impact of political stability is on the various indicators of economic growth i.e. GDP per capita, inflation, level of investment, trade, etc. The indirect impact can be seen on social indicators like life expectancy, literacy rate, enrolment ratio (primary and secondary), fertility rate, etc. The stability of the government results in persistent policies that facilitates the improvement in access to basic services and hence, improves the standard of living. The government in its continuous regime can incur expenditure on social sectors and improve the human development indicators. This, in turn, breaks down the health-poverty trap and improves the quality of the labour force. Further, inculcating education helps develop better skilled workforce; consequently, leading to reduction in unemployment. This is essential in developing countries which usually have a huge workforce. Frequent changes in the government result in discontinuous and irregular policies which hamper the human capital formation. This shakes the investors' confidence and thus, both physical and human capital accumulation get affected. (Younis et al, 2008)

Another impact of political stability is on economic freedom of the citizenry. The government regime affects the extent of economic freedom enjoyed by the citizenry. Economic growth of a country is directly proportional to economic freedom. Economic freedom can be determined by economic mobility in terms of occupation and opportunities, extent of encouragement for entrepreneurship, openness of financial markets, development of banking sector, bureaucracy and rent-seeking activities that hurdle the process of venture development, geographic mobility and development opportunities available for export-led growth. Thus, political stability is not only defined

in terms of political rule but also the correlation between the ruling party's ideologies and economic policies adopted by it. (Acemoglu and Robinson, 2012)

According to Younis et al (2008), the extent of political freedom enjoyed by the citizenry also plays an important role. The study has successfully established that higher the political freedom, lower will be the growth rate of the economy. Higher political freedom translates into higher political instability as stern economic decisions taken by the government may be strongly opposed. Thus, resulting in frequent cabinet transfers, political turmoil, coups or upheavals, which in turn, hamper growth.

5.0 Channels of Transmission

As noted above, political instability hinders economic growth by discouraging capital formation, retarding total factor productivity and decreasing private investments. There are various channels through which political instability distresses growth. They have been discussed below.

5.1 The capital immobility linkage

Political instability creates uncertainty with respect to future institutions and policymakers; which alters the behaviour of private agents and firms with respect to capital accumulation. The impact is immediately felt as capital does not move in capital-scarce areas under the economy. Investors lose confidence about the future and this undermines the business. Investors have to incur entry and exit costs due to uncertainty. This also shakes the investors' confidence affecting both physical and human capital accumulation. The stern economic decisions that are taken by the government may be strongly opposed. It may change the incentives of policymakers who either try to increase their term in office or take benefit of the position they have while they are in office. Contrarily, it may also result in frequent cabinet transfers, political turmoil, coups or upheavals, which may hinder growth. (Alesina and Perotti, 1993; Feng, 1997; Jong-a-pin, 2006; Younis et al, 2008; Bernal-Verdugo et al, 2013)

5.2 The savings immobility linkage

When a political regime is unstable, consumers decrease savings and increase consumption since their savings may become worthless. Also, political upheavals displace people and hence, deprive them of jobs. This makes savings even more difficult. Similarly, investors may not invest in fixed capital stocks, such as factories or land, preferring to keep their portfolios and properties in liquid and portable forms such as in foreign currencies or gold that can retain value. Thus, in times of political instability, both the supply of investment capital by savers and demand of capital by investors will

decrease. This makes job opportunities less available and moreover, it diminishes the potential pool of savings. On the other hand, it disturbs the efficient allocation of resources and the formation of fixed capital necessary for economic development. Thus, political instability puts investors' decision to invest their money in the markets on hold and compels consumers to spend more. (Alesina and Perotti, 1993; Feng, 2001)

5.3 The total factor productivity linkage

Political instability retards total factor productivity by disrupting smooth functioning of the market. In such a scenario, policy changes relevant for economic decisions take place, only when government changes. When this discontent reaches a very high level, social unrest disrupts market activities and increases economic uncertainty above and beyond its direct effects on executive instability. Frequent government changes may affect the economic decisions of the previous government. It also increases political polarisation and hence, economic growth gets affected as factors of production may not be effectively and efficiently utilised. (Alesina et al, 1992; Barro, 1991; Feng and Chen, 1997; Jong-a-pin, 2006)

5.4 The property rights linkage

Political instability also implies direct disruptions of productive activities. It indicates a propensity to abandon the rule of law and therefore, a threat to established property rights. (Alesina and Perotti, 1993)

5.5 The human capital linkage

Political instability has direct impact on economic growth as there is loss of human capital. There is large scale migration of labour both skilled and unskilled as political instability gives rise to uncertainty, deterred investment in physical capital and also due to reduction in ease of doing business. (Bernal-Verdugo et al, 2013) The effects of political instability on economic growth of the country are multifarious and also dangerous. Thus, it can be said that political instability hampers economic growth. Hence, there is a need for political stability. Stable and well-rooted government will be able to design strong policies and these policies will, in turn, help in achieving growth. This growth will induce confidence in the government; that may in turn lead to stable government and regular, periodical and peaceful political changes i.e. political stability.

6.0 Measurement of Political Stability

Modern growth theory, built on the foundation of Solow (1956), emphasises growth in inputs and technological advances as the underlying causes of economic

growth. More recent work has emphasised the importance of market institutions, economic freedom, political regime and political freedom as prerequisites for growth. (Barro, 1994; Gwartney et al, 1999; Feng, 2001) In dictatorship, increase in political rights, may have small positive effects on the growth rate of the country as this enhances the benefits from limitations on governmental power. But in moderate level of political freedom, a further increase in political rights may have adverse effects on growth because of intensified concern with income redistribution. When the economic variables like rule-of-law, free markets, small government consumption and high human capital are held constant, then liberal democracy has a weak negative effect on growth. This may be due to demonstrations and oppositions that play an active and impacting role on the policies, thereby affecting growth. Stable and persistent democracy has a larger and stronger effect on growth than democracy per se. Democracy, as a form of regime, provides a stable political environment which reduces unconstitutional government change. Yet, along with regime stability, democracy offers flexibility and the opportunity for major government change within the political system. (Barro, 1994; Feng, 1997; Gwartney et al, 1999; Feng, 2001)

Thus, the economy of a nation is the result of highly integrated political factors, which work upon themselves over a period of time, giving rise to the markets that reflect the intensity and the decibel of the economic activities. (Alesina et al, 1992; Przeworski and Limongi, 1993; Barro, 1994; Feng, 1997; Acemoglu and Robinson, 2012) A number of empirical studies have made an attempt to estimate and define political stability. These studies make use of indicators like the number of cabinet changes or proxies such as the number of coups or assassinations or fractionalisation and polarisation of political parties or number of elections held, years of ruling party in office and many more variables. Some variables are relevant only under democratic regime and some under authoritarian regime. (Alesina et al, 1992; Feng, 1997; Salvi, 2005; Jong-a-pin, 2006; Persson and Tabellini, 2006; Younis et al, 2008; Aisen and Veiga, 2011)

A consolidated list of relevant and major variables as undertaken by various empirical studies is given below. For measuring political stability, the variables used are:

- (i) *Longevity of the regime—continuity of government policies*: (Alesina et al, 1992; Persson and Tabellini, 2006; Jong-a-pin, 2006; Younis et al, 2008; Goldstone et al, 2010; Aisen and Veiga, 2011) This indicator is defined as the number of years that the party of the chief executive has been in office. This indicator is used to check for the continuation of the government regime, thus indicating continuity in policies and objectives of the government. This also includes re-election of the Ruling party which is indicative of the strength of the ruling party to retain its power at the Centre and thereby providing stability

- (ii) *Cabinet changes*: (Jong-a-pin; 2006; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2013) This can be defined as the number of times in the given period that a new premier is named and/or 50% of the cabinet posts are occupied by new ministers. This indicator helps to assess the mediation in the ruling party and also the strength of the premier of the ruling party.
- (iii) *Increase in number of political parties or alliances, having at least two seats in the national assembly after every election*: (Younis et al, 2008) This indicator affects the concentration of the Ruling party as its probability of assuming power may deplete with increase in the number of parties contesting elections.
- (iv) *Index of democratization–electoral success of small parties*: (Younis et al, 2008) This is the percentage of population actually voted for smaller parties serves as a measure for this index. This will supplement the calculation of the Ruling party's strength during elections and its probability of assuming power.
- (v) *Number of elections*: (Jong-a-pin, 2006; Bernal-Verdugo et al, 2103) The number of elections held for the lower house of a national legislature in a given time period. This indicator shows the strength and stability of the leading ruling party and the faith of the coalition parties in the leading ruling party, its policies as well as the premier of the leading ruling party.
- (vi) *Ratio of the seats of the Ruling Parties (alliance) in the total seats of the Parliament–absolute concentration of power*: (Salvi, 2005; Younis et al, 2008; Bernal-Verdugo et al, 2103) This indicates the absolute strength of the government and hence, stability of its decisions.
- (vii) *Ratio of the seats of the Leading Ruling party (major) to the total seats of the Ruling Parties (alliance)–relative concentration of power (in case of alliances formed to make the government)*: (Salvi, 2005) This indicator measures the extent of coalition and number of parties involved in the government. The higher the number of parties in coalition, policies would be more deviated towards ideologies of these parties – extent of political polarisation will also be known.
- (viii) *Ratio of the seats of the Leading Ruling Party (major) to the seats of the Leading Opposition Party–relative concentration of power*: (Salvi, 2005) This indicator measures the relative strength of major parties – ruling as well as opposition.
- (ix) *Ratio of the seats of the Leading Ruling Party (major) to the total seats of the Opposition Parties–relative concentration of power*: (Salvi, 2005) This indicator measures the strength of the Leading Ruling Party to all the parties in the multi-party system which is not a party of the coalition formed in making of the government.

- (x) *Ratio of the total seats of the Ruling Parties (alliance) to the total seats of the Opposition Parties—relative concentration of power:* (Salvi, 2005) This indicator measures the strength of the coalition government with respect to the second front in the political polarisation which forms the polity. It represents the strength of the government in the lower house essential especially during policy designing and/or amendments.
- (xi) *Ratio of the total seats of the Opposition Parties (alliance) to the total seats of the Lower House—relative concentration of power:* (Bernal-Verdugo et al, 2013) This indicator helps in determining the strength of the opposition party. It indicates the efficacy and persuasion power of the leading government in decision making and policy designing. It also helps in assessing the time period required for passing of the bill(s) in the lower house.
- (xii) *Ratio of the number of states controlled by the ruling Party (or Parties) at the Centre to the total number of states in the country—Spread of political power:* (Salvi, 2005) This measure specifies the hold of the Ruling Party and hence, is the indicator of centralisation of the rule of the Ruling Party in the Federal Structure.
- (xiii) *Political competition – Number of parties existing in the country at every election:* (Feng, 2001; Jong-a-pin, 2006; Bernal-Verdugo et al, 2103) This indicator helps to determine whether a strong government can be formed or a coalition. This is essential because the voters are divided among parties and hence, probability of attaining simple, pure and clean majority goes on diminishing with upward rise in the number of parties.
- (xiv) *Military expenditure as a percentage of GDP:* (Barro, 1994; Feng, 2001; Younis et al, 2008) This is an indicator of peace and hence, political stability. Higher the expenditure on military and defence; lower is the security and hence, higher chances of political turmoil.
- (xv) *Violence index—number of revolutions, coups, assassinations:* (Alesina et al, 1992; Alesina and Perotti, 1993; Feng, 2001; Jong-a-pin, 2006; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2103) This is the number of revolutions, coups, assassinations that have taken place in order to uproot the existing government. This is indicative of political stability and also the extent of control of the government on the masses.
- (xvi) *Polity scale—strongly autocratic to strongly democratic:* (Alesina et al, 1992; Alesina and Perotti, 1993; Barro, 1994; Przeworski, 2000; Goldstone et al, 2010; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2103) Regime type plays an important role in determining the amount of political freedom and openness of the economy.

(xvii) *Ethnic Homogeneity*: (Alesina and Perotti, 1993; Jong-a-pin, 2006; Goldstone et al, 2010; Aisen and Veiga, 2011) This indicator helps in judging the loyalty of the masses towards a particular party ideology. The more varied the ethnicity of the population; higher will be the fractionalisation in the government as loyalty will determine voting pattern and hence, government formation.

The various indicators of economic growth used to analyse the impact of political stability are as under:

- (i) *Growth of GDP per capita*: (Alesina et al, 1992; Alesina and Perotti, 1993; Barro, 1991; Barro, 1994; Feng, 1997; Feng, 2001; Persson and Tabellini, 2006; Goldstone et al, 2010; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2103)
- (ii) *Primary and secondary school enrolment*: (Alesina et al, 1992; Alesina and Perotti, 1993; Barro, 1991; Barro, 1994; Feng, 2001; Aisen and Veiga, 2011)
- (iii) *Investment as a percentage of GDP*: (Alesina and Perotti, 1993; Barro, 1991; Barro, 1994; Feng, 1997; Feng, 2001; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2103)
- (iv) *Inflation*: (Feng, 1997; Feng, 2001; Aisen and Veiga, 2011)
- (v) *Trade as a percentage of GDP*: (Barro, 1991; Barro, 1994; Feng, 1997; Younis et al, 2008; Goldstone et al, 2010; Aisen and Veiga, 2011; Bernal-Verdugo et al, 2103)
- (vi) *Government consumption ratio*: (Barro, 1991; Barro, 1994; Feng, 2001; Aisen and Veiga, 2011)
- (vii) *Capital flows and foreign investments*: (Younis et al, 2008)
- (viii) *Banking and insurance (Credit)*: (Younis et al, 2008; Aisen and Veiga, 2011)
- (ix) *Rule of law index (based on index of International Country Risk Guide)*: (Barro, 1994; Younis et al, 2008; Bernal-Verdugo et al, 2103) This indicator helps to measure political corruption, risk of repudiation of contracts, ease of doing business, etc.

7.0 Conclusion

Thus, political instability in various forms of regime (authoritarian regime or democracy and their various forms) and its extremity (i.e. peaceful cabinet transfers to violent coups, etc.) has a negative impact on economic growth as the two are correlated. (Alesina et al, 1992; Barro, 1994; Feng, 1997; Persson and Tabellini, 2006; Goldstone et al, 2010; Bernal-Verdugo, 2013) If the Indian perspective is taken into consideration, then the Judiciary branch of the government is completely independent of the Legislative and the Executive branches. The Executive is elected by the people who are representatives that assume office. The Legislative or the Parliament comprises of the Prime Minister and the Cabinet alongwith the members of the Upper House. Hence, in

India the Executive and the Legislative are integrated with each other. When political stability is considered, it is the stability of the Executive and Legislative Branches that is assumed. Peaceful change in power is done by regular elections that take place every five years or, sometimes, irregular mid-term elections. Political polarisation in India is higher as it has a multi-party system with two major political parties and many regional dominant parties. Thus, the arena of political ideologies is very wide with political parties ranging from extreme left ideology – conservative ideology to right – absolutely open capitalistic parties with strong market oriented ideologies. However, clear demarcation of the ideologies is not possible to be done among Indian political parties. Thus, for defining political stability in India, it is extremely essential to study the emergence, evolution and maturing of the parties and their ideologies since its first election that were held in 1950. Since political polarisation is high and there are regional variations Thus, it is difficulty to take a unitary view on the question of political instability and economic growth.

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