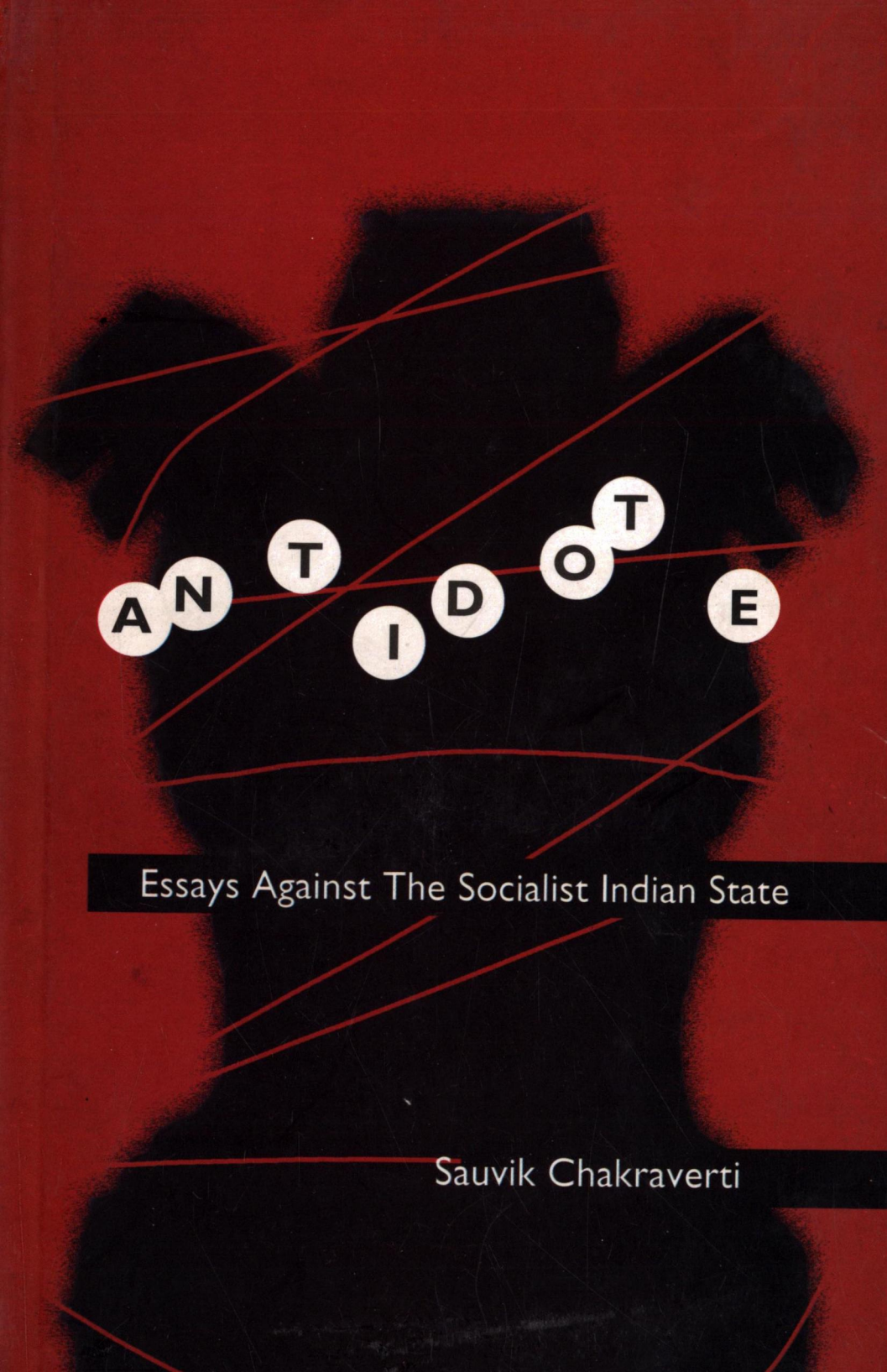

ANTIDOTE
Essays Against The Socialist Indian State
Sauvik Chakraverti

ANTIDOTE

ESSAYS AGAINST THE SOCIALIST INDIAN STATE

You who build these altars now
to sacrifice our children,
you must not do it any more.

A scheme is not a vision,
and you never have been tempted,
by a demon or a god.

—LEONARD COHEN
The Story of Isaac

ANTIDOTE

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SAUVIK CHAKRAVERTI



MACMILLAN



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To
The memory of
Prof. B.R. Shenoy
'Hero and Saint'.
The only official Indian economist to place
on record a note of dissent
to Jawaharlal Nehru's
grandiose idea of socialist planning.

PREFACE

Indian socialism is better called statism: it places state above society.

This state, as an essay in this volume will prove, is a predatory state, a kleptocracy: the rule of thieves. After fighting for and obtaining political freedom from a colonial regime, India needs to fight again for freedom from the socialist state.

Freedom rests on three pillars: the political freedom of democracy; the economic freedom of the market; and liberal education—that which teaches the value of freedom.

We need to fight for economic freedom. Today, we are ranked 120 in the World Economic Freedom Index. 'Mostly Unfree' is the category in which we are placed. From this index, it is easy to see why many countries are poor: their people are not free and their states are kleptocratic.

We also need to fight for liberal education. I often lecture to students of economics and never cease to be surprised at their total ignorance of the dominant themes in the philosophy of freedom. They are being trained to see the state as the solution. This is not knowledge, it is propaganda. The essays in this volume will disprove many of the false ideas taught by the socialist Indian state in its universities.The task ahead will be to get the state out of education. The human mind is the most precious resource we have. We cannot continue to allow the destruction of this resource.

These essays have been written for the enjoyment of those who take citizenship seriously. The housewife, the copywriter, the ad executive, the manager, the student, the journalist—they are the target audience. The style is journalistic, not academic. These are simply essays, these are not theses.

I enjoyed writing these essays and if these provide enjoyment to my reader, I will be doubly rewarded.

SAUVIK CHAKRAVERTI

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1. POPULATION!

—or How people cause prosperity

People who need people are the luckiest people in the world.
—Barbra Streisand

Economics is the study of prosperity. Adam Smith studied the 'wealth of nations'. Unfortunately, since then, we have had too many economists studying poverty—and prescribing the state as the way out. They also see population to be a cause of poverty—and prescribe state-conceived, -financed and -directed population control programmes; which are often coercive. In India the state teaches children, through high school economics textbooks, that our population is a cause of our poverty. This essay seeks to establish the fact that population causes prosperity. This can be proved in four words: Urban Areas Are Rich. Every urban area, all over the world, is densely populated and quite rich. What else are dots on the map? This is seen throughout history: the story of civilization is a story of cities—all densely populated and all quite rich. We need to remind ourselves that humans are the only species capable of creating wealth. An increase in our numbers can only cause prosperity! That is why in the old days they said, 'May your tribe increase.' Was it meant as a curse?

THE MORE THE MERRIER

What is prosperity? It can be symbolically represented as follows—in what I call 'The More the Merrier Equation':

PK	+	**3TC**	+	**F**	+	**S**	=	**PROSPERITY**
Person with knowledge		Trade, towns, transport and communications		Freedom		Security		

It is particularly mortifying for me to begin a collection of essays with what looks suspiciously like a mathematical equation typically used by economists to impress, beguile and confuse people—including their students. Commenting on the takeover of economics by mathematicians, John Kenneth Galbraith said:

> Mathematical accomplishment in economic theory did attain a certain objective value as a ticket of admission to the economics profession, a device for keeping out those with purely verbal talent.[1]

But unfortunately, the prosperity equation is the only place to begin this essay, and indeed this book. That is because, once we understand prosperity, we know the causes of our poverty—and the definite fact that population is not one of them.

So what is **PK + 3TC + F + S = Prosperity?**

P is a Person, a Human Being

This equation is based on the basic fact that human beings alone are economic, and hence create prosperity. There is a bird whose faecal matter is high-value fertilizer. It shits money—but isn't rich itself. Humans harvest its droppings and become rich because of one main reason: we have the ability to trade—the 'natural propensity' Adam Smith spoke of, 'to truck, barter and exchange'. Since we are the only species with this ability, it follows that *only human beings can create wealth.* How can an increase in the number of human beings cause poverty?

K is Knowledge

Thus, PK is a person with knowledge: of skills, of markets, or whatever. Even to harvest the bird-shit above, a P will have to have knowledge of its worth, the location of those who value it and those

[1]Galbraith, J.K., *A History of Economics: The Past as the Present,* Penguin, Harmondsworth, 1987, p. 259.

with whom he can trade. A P must have K of the market. But what is knowledge?

For the answer to that question, we must turn to Friedrich August von Hayek, the philosopher of freedom who won the 1974 Nobel Prize for Economics. His theory of knowledge disproved the method of central economic planning. Knowledge, Hayek said, could be both codifiable and uncodifiable. There is little that can be codified about how to ride a bicycle, or climb a coconut tree. The market relies on all these kinds of knowledge and no institution that seeks to replace the market can gather all the knowledge required for the task. How does a planner collect uncodifiable knowledge? Planning is bound to fail, Hayek said, because the knowledge required for the purpose cannot be collected.

Anyone who is 'economic'—who trades some good or service in the market—possesses knowledge of some kind. The skills of the butcher, the vegetable vendor, the housemaid, the cab driver—all these are based on 'knowledge'. Each kind of knowledge commands some price in the market and it is not true that academic knowledge obtains the highest reward: no professor of economics earns as much as Sachin Tendulkar.

3TC stands for Trade, Towns, Transport and Communications

This is 'the more the merrier' part of the equation. These are the methods by which you get access to more human beings. To create prosperity, a PK must meet or interact with other PKs. 3TC gets him to other PKs and is, therefore, vital to prosperity.

Trade is the basic economic activity of human beings that gave rise to civilization. Indeed, we are the only species capable of it—*Homo economicus.* As Adam Smith noted, only human beings can strike 'bargains'; no dog can exchange one bone for another. Among humans, this ability to trade is innate and should be celebrated. Little children gainfully trade toys and food amongst themselves: give me some chips and have a sip of my cola. Trade is a 'positive sum game': with trade, both sides are better off than before. When A gives up a little cola for some chips, she is better off; and B, who gives up some chips for a sip, is also better off. Barter led to the invention of money as a 'medium of exchange'—perhaps the greatest creation of the human mind. Socialism does not value trade. It

emphasizes manufacture. It believes that by restricting trade the state can create 'industrialization'. This is what Hayek called the 'fatal conceit' of socialism.

Towns are where PKs are concentrated. You are more likely to strike a deal in a town than in the wide open countryside. Civilization is based on towns and cities. The root of the word 'civilization' is *civitas,* which means 'city'. These are the dots we see on the map. Human beings create these colonies for themselves just as ants build anthills. These are all densely populated—and prosperous.

There is a specific reason why towns are critical to the economics of prosperity. 'Economics is the study of the production of wealth through the division of labour,' said Prof. George Reisman who, like Hayek, studied under the great Austrian economist, Ludwig von Mises. The division of labour is maximum in an urban area: you cannot be a receptionist, dentist, barber or taxi driver in a village. Of course, this division of labour is also based on the division of knowledge; so we could improve Professor Reisman's definition somewhat by saying that: Economics is the study of the production of wealth through the division of labour and knowledge. Thus, urbanization is critical to economics because in urban areas there is maximum scope for division of labour and knowledge. Further, 'planning' is not economics, because it is not a study of the division of labour and knowledge.

Transport and Communications allow the economic pulse of an urban conglomerate to generate prosperity through a vast hinterland. They also allow these urban superpowers—and the vast numbers of PKs in them—to interconnect: the more the merrier. That, I believe, is the economic theory of the Internet. Adam Smith had clearly observed the importance of transportation. He saw that 'good roads, canals and navigable rivers, by diminishing the expense of carriage, put the remote parts of the country more nearly upon a level with those in the neighbourhood of the town.' He added that these newly developed modes of transportation were the 'greatest of all improvements'.

F is Freedom, the vital ingredient

Without economic freedom, the rest is useless. Each human being—each PK—is looking out for his own economic benefit. He or she is

the best judge of how that gain is to be obtained—and should therefore be left free to get it. Indians possess very little economic freedom. In the 1999 World Freedom Index, India is ranked 120: 'mostly unfree' is what we are. The state has cornered vast economic powers. Indians willingly gave the state these powers, asking it to occupy the 'commanding heights of the economy'. This is the basic reason why India is still poor, for the state does not create wealth: it only taxes and spends. PKs create wealth—when they are left free.

S is Security

This is the standard public good supposed to be supplied by the Hobbesian state. Thomas Hobbes (1588–1679) wrote *Leviathan* in 1651, in which he put forward the political theory that (if not absolutist) justified government absolutely—while saying it should be limited. The difference between the 'state of nature' in which there is no state and man is at war with every man,[2] and the situation in which sovereignty has been granted to the monarch, are distinguished only by the security brought about by the installation of this sovereign power. Of course, it should be examined, especially where states fail to provide citizens with adequate security, whether there are better methods of providing local collective security. But of that, later.

With this equation, we can judge why some Ps are poor. In our case, it is easy to see that poverty is because all the other factors—K, the 3Ts, C, F and S—have been largely missing. The priorities of a poor nation seeking prosperity become clear.

URBANIZATION AND POPULATION

Population causes prosperity. Urban areas—densely populated cities and towns—possess more cars, cellphones and millionaires than vacant rural countrysides. Further, urbanization is a growing phenomenon —proving that more and more people are finding it 'economic' to live in places where the density of population is high. Why? Because these generate wealth. They follow the prosperity equation. Hong Kong, Singapore, Tokyo, New York, London... the list is endless.

[2] This is a highly contestable assumption. There are many stateless societies in Africa as well as India wherein anarchy does not mean chaos, simply because the market is there to motivate human beings to be 'moral' and maintain order.

These are the anthills humans build. These are where humans are most concentrated, and they are the generators of prosperity.

Of course, it is ridiculous to suggest that this process of adding on human population *ad infinitum* will continue to generate prosperity. No one wants a situation in which we are left with only standing room. But the prosperity equation has an in-built stabilizer. People who urbanize find it 'economic' to opt for small families. A small family is a globally accepted urban 'value'. Thus, urbanization and globalization—the spread of this value—will do more to bring down our numbers than the expensive strategies pursued by governments today.

This calls for a radical rethinking of accepted beliefs regarding the so-called 'population problem'. Today, school children are taught, through government-approved economics textbooks, that population is a cause of poverty. The elected as well as appointed personnel of the state wax eloquent on the insurmountable dimensions of this perceived problem. The strategies pursued by the state to tackle this 'problem' involve huge expenditures which cost the taxpayer dear without much reciprocal benefit.

These strategies—at their ludicrous extreme—even went to the extent of using force. Sanjay Gandhi's programme of mass sterilization is fresh in our memory. The use of force is, of course, anathema to those who believe in freedom. There is greater reason to challenge it when this force is used on the basis of completely false conceptions of both the 'problem' as well as the 'cure'. The use of force by the state is sometimes justified on the grounds that the issue at stake is the promotion of 'public good'. In this instance, the state cannot claim to have used force towards such ends.

Lord Bauer said that increased commercial contact between countries would lower birth rates faster than anything governments could think of. Others have often opined—and this opinion is particularly popular in India—that 'development is the best contraceptive.' What both are saying is that if we follow the prosperity equation, the growth of our numbers will also stabilize. Urbanization brings down high population growth rates. There is no need for the state to bother about population. Let it look after its basic tasks like law and order.

It is quite 'irrational' on the part of the state to consider population to be a problem, because more the people the more it can tax: that is

why Mughal emperors went under the title *Jahanpanah* or 'Refuge of the World.' If someone abandoned the protection of a neighbourhood king and settled down under Akbar the Great, the Mughal exchequer gained. So what sense do immigration restrictions make: none whatsoever. They are not 'rational'; they are based on xenophobia. Those who practice immigration restrictions do not appreciate the fact that human beings are generators of wealth; that countries which see a human influx gain in the long run, and that countries which see an exodus lose heavily: their greatest resource is depleted.

The equation tells us numerous reasons why many of our Ps are poor. They don't have adequate modern Knowledge. Transport and Communications are rudimentary. Free trade is not practised. Economic Freedom is in low supply. Security is likewise. But what about Towns? What can be said about the manner in which India has been urbanizing? Quite a lot, actually.

URBANIZATION EXAMINED

David Clark, Head of the Department of Geography, University of Coventry, has studied the phenomenon of urbanization in depth, especially over recent decades.[3] He says that not till 1899, when Adna Ferrin Weber published *The Growth of Cities in the Nineteenth Century,* did urban study become 'a central focus of inquiry in the newly emerging discipline of geography.' Urbanization was a limited phenomenon then but 'in the last thirty years it has become valid to talk about an urban world: a world in which urban places and urban living are the norm rather than the exception.' The year 1996 has 'marked a major watershed in the evolution of human settlement', for today it can be said that more than half the world's population lives in towns and cities. Over 2.6 billion people worldwide are urbanites. 'No longer are towns and cities exceptional settlement forms in predominantly rural societies—the world has become an urban place.'

If we look at the Indian scenario, a likely picture emerges. The richest states of India—Maharashtra, Gujarat, Tamil Nadu, Karnataka, Punjab, West Bengal, Andhra Pradesh and Kerala—report levels of

[3]Clark, D., *Urban World/Global City*, Routeledge, London, 1996.

urbanization that are higher than the all-India average of 30 per cent. Maharashtra and Gujarat report urban growth rates in excess of 3 per cent: significantly higher than their growth rates of population. Extrapolating from the latest figures available,[4] it would be safe to assert that these two states are approaching the world average of 50 per cent urbanization. The poorest areas of India—like Bihar and Assam—report levels of urbanization that barely touch double digits. (From Census data.)

Thus, statistical evidence from our own country supports the thesis that population causes prosperity. It also supports the belief that urbanization brings down population growth rates. Kerala, the state with the lowest population growth rate,[5] reports the highest urban growth rate in India—almost 5 per cent annually. It is undoubtedly true that the high level of literacy in Kerala has a lot to do with its low population growth rate—the K factor—but the role played by its huge migrant community in transmitting urban values should not be overlooked.

Where will all this lead? David Clark believes that the population of the world will stabilize at 85 per cent urban—living on just 7 per cent of the earth's land. The forces of globalization will power the process. As his study reveals, unlike an earlier period in the evolution of the global economy, today's globalization is sending industrialization to the periphery. In an earlier age, when the industrial revolution had just begun and the world economy was controlled by imperialist forces, manufacturing would tend to restrict itself to the core of the empire. Today things are the other way round. Globalization has also come to mean that the world is not only the market, it is also the factory. Examples abound. There is an American toy company that has a small office in New York which designs and markets its products—all manufactured on contract by small firms in Korea, Taiwan and China. A leading manufacturer of athletic footwear operates much the same way. There are western publishing firms which do their specialized jobs like editing and proof-reading at home, leaving 'labour-intensive' work like typesetting and printing to

[4] 'Habitat II', *India National Report*, 1996.

[5] Kerala has controlled its population growth very well, but has not attained high prosperity. This disproves the notion that population growth causes poverty and that prosperity can be attained simply by controlling the growth of numbers.

contracted parties in South-East Asia. During the past 30 years—and especially the last 10 years—these forces have led to greater industrialization as well as increased urbanization in the periphery of the global economic system. These processes are now accelerating.

Herein lie the opportunities and the challenges—especially for the 'Third World'. The cities of the Third World are particularly notable as environmental disaster zones. India is no exception. Bombay, Delhi, Calcutta, Madras, Bangalore, Hyderabad, Poona... these great cities which boasted a high quality of life have now become gaping sores on the earth's environment. The quality of air in all these cities has become unacceptable. Standards of civic hygiene are abysmal. Matters of great environmental concern—like sewage treatment and garbage disposal—do not obtain sufficient public investment. Environmentally friendly systems of rapid mass transportation do not exist. None of these great cities have effective municipal organization. They are usually seats of state governments—and these higher levels of government hold all the powers. Delhi is unique. Power over its affairs is shared by the central government, the state government, a lieutenant governor and a host of unaccountable statal bodies like the Delhi Development Authority.

Apart from these big cities, Indians live in hundreds of big towns and thousands of small towns. The conditions in these are much worse. Untreated sewage from these towns pollutes every major riverine system. None of these towns have an administratively competent, financially solvent and publicly accountable system of municipal organization. Unlike the prefects of provincial France, the Indian Administrative Service has never fostered institutions of urban democracy. A typical district is headquartered in a big town, and has a host of smaller towns within its jurisdiction. All these urban areas are on the brink of disintegration.

The gross mismanagement of urban areas, which generate wealth, is the greatest failure of a state that has viewed population to be as huge a 'problem' as urbanization. This has always been referred to as the 'rural–urban migration problem', and its implications have not been understood. It is fairly obvious that human beings are guided to do things that earn them more money—they are economically 'rational'. They prefer gains to losses. Thus, if many are choosing to shift from thinly populated countrysides to crowded towns, then surely there must be some economic rationale that explains this behaviour.

It is glaringly evident, in this case, that urban areas generate prosperity and that people come flocking to them hoping for a share of that prosperity. If you want to tackle poverty sincerely, you must look upon urbanization as a process that will help you along the way. This, unfortunately, the Indian state has never considered. China, on the other hand, has a pronounced urban vision. Its two top leaders, Jiang Zemin and Zhu Rongji have both been mayors of big cities like Shanghai. They ran them well, and helped rebuild them. A Chinese mayor was quoted in the *Time* magazine as saying that the crane should be made China's national bird—and he was referring to construction cranes! China has made the connection between prosperity and urbanization; India has not. The BJP-led government which took over in 1998 wanted to invest 60 per cent of total state outlay on 'rural development'! At the 1998 Economic Editors' Conference, the head of India's Planning Commission said that his greatest desire was to ensure that no villager would migrate to a city.

PRIMACY

To fully understand the dimensions of urbanization and rural–urban migration, let us once again turn to David Clark.

Clark cites various studies which have looked into the manner in which secondary and tertiary towns develop around primary cities. The growth of these smaller urban centres is extremely important to the understanding of the urbanization process. In India, what is clearly visible is that these secondary and tertiary towns are not developing—we are all crowding into cities. This is the phenomenon of 'primacy'—one city becoming overly important in the urban scheme. Reporting on primacy, Clark says:

> The evidence suggests, however, that primacy exists in countries in which the principal city is more strongly linked to and integrated within the global urban system than it is to the domestic urban hierarchy.[6]

The fact that we inhabit a country whose urbanization has been severely lopsided, creating primacy, in which the 'principal city is more strongly linked to and integrated within the global urban system than it is to the domestic urban hierarchy' can be illustrated by an

[6]Clark, D., op. cit., p. 29.

account of my recent visit to Dehra Dun, a town of tourism interest, with many elite residential public schools, a military academy, a forestry institute and the preferred place of retirement of innumerable senior military and civil officers. Dehra Dun, at the foothills, is the gateway to the Garhwal mountains. About 30 km uphill and you are in Mussoorie, once called 'the queen of hill stations.'

Dehra Dun is just 250 km from Delhi. The highway is the same one that takes you to Hardwar, Rishikesh and ultimately Uttarkashi—it is heavily used by the devout. But the highway no longer exists. Some years ago I might have called it a 'bad road'. But today, one can only say 'no road'. So it takes over 6 hours—if you drive with maximum emphasis on safety—to reach Dehra Dun from Delhi. You can fly to Dubai or Hong Kong in much less time. The principal city is better linked to the global urban system than it is to the domestic urban hierarchy: QED.

All along the drive, this urban hierarchy confronts you. Ghaziabad, Meerut, Modinagar, Khatauli, Muzaffarnagar, Roorkee—these are all towns, or urban areas. But they lack sound links to their primary city. If these links were in place, the urban picture would be different. Delhi would decongest; the surrounds would 'develop'.

Some statistics from Gujarat, one of the most urbanized and prosperous states of India, can be quoted to support the thesis of primacy.[7]

Class One urban centres are those with a population above 1,00,000. In 1981, Gujarat had 13 of these; in 1991, the figure rose to 21—a more than 50 per cent jump. The total population in Class One urban areas as a percentage of total urban population rose from 57.9 to 66.4 during 1981–91—an almost 10 per cent increase.

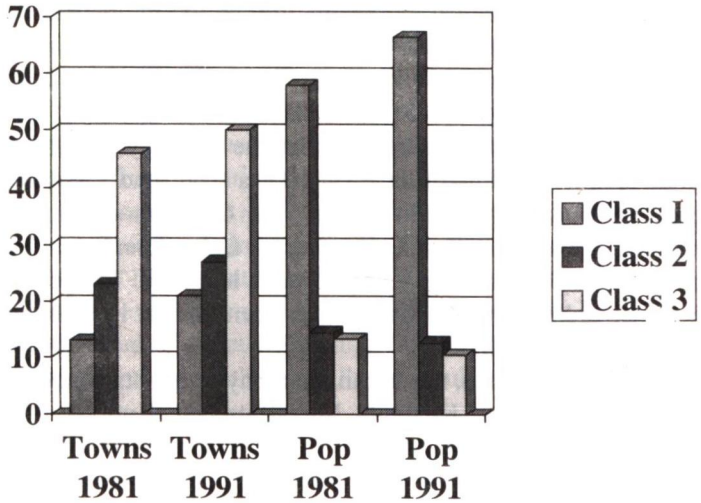
Class Two urban centres are those with a population between 50,000 and 99,000. During 1981–91, the number of such urban centres just nudged up from 23 to 27. The percentage of total urban population in Class Two towns actually fell from 14.5 to 12.7 per cent.

Class Three urban centres have a population between 20,000 and 49,000. During 1981–91, the number of Class Three urban centres increased marginally from 46 to 50, and the percentage of total urban population in them decreased from 13.4 to 10.5 per cent. (See chart on Gujarat's Urbanization, 1981–91.)

[7] Desai, D., 'Big City Blues', *Express Focus, The Indian Express,* 5 December 1997.

Gujarat's Urbanization—1981-91

- Class 1 = >100,000
- Class 2 = >50,000
- Class 3 = >20,000



In 1991, while there were 350 urban centres in all in Gujarat, two-thirds of the entire urban population was concentrated in 21 cities. The figure must be higher now. This is primacy.

It is because of primacy that our big cities are growing beyond sustainable levels, while the innumerable small towns that surround them are not developing. The transportation links between surrounding towns and the primary city are grossly inadequate. Clark speaks of various studies which show that, with sound transportation links, primacy ceases and what may be called 'normal' or 'market-driven' urban development ensues. Market-driven urban development is what India must pursue. For this, massive investments in transportation are essential. Of course, laws which restrict real estate development, like land ceilings and rent control, must go. Great emphasis must be laid on the systems by which property is registered and bought and sold. It must be made quick and foolproof, so that good economics is not thwarted by crooks and *babus*. And the housing finance system must be streamlined with quick rules for foreclosure.

Market-driven urbanization will not only control population, it will also deal with the greatest practical problem faced by citizens of

a country that boasts huge numbers: overcrowding. It will also take care of the other great problem faced by all Indians—astronomically high real estate prices which have rendered housing out of the reach of even the middle classes. Price is a function of demand and supply. Transportation adds to the supply of land. Connect Village X to Town Y with a tramway and immediately that much more land is made available to the urban economy. This makes possible for a settlement pattern in which the city centre, where prices are highest because of commercial value, focuses on business and vast areas are opened up for residence.

It is worth remembering that Japan, West Germany, Holland and Belgium have higher population densities than India but do not face the overcrowding and unaffordable housing prices that we in India have to put up with. Life in the unsustainable cities of India is close to living in hell. The poverty, the slums, the pollution, disease—these are not caused by 'population'. The cause is primacy: the principal city not being properly integrated with the domestic urban hierarchy.

DELHI'S STATE-SPONSORED MRTS

The state, unfortunately, is yet to consider things this way. The capital, Delhi, serves as the best example. For about a decade now, there has been a lot of hot air on the formation of a National Capital Region comprising many towns in adjoining states. But there has been no investment in transportation. The recently announced Mass Rapid Transport System is laughable. It completely bypasses West, Central and South Delhi, connects North Delhi to East Delhi and extends itself to a hitherto unknown village on the extreme north of the state called Holimbi Kalan.[8] The only completely underground section connects Delhi University to the Central Secretariat. Busy commercial areas, where 'masses transit', like Connaught Place, Nehru Place, Karol Bagh and countless more, lie unconnected. Wealthy areas, like South Delhi, whose citizens pay the most in taxes and who own the highest number of personal vehicles (whose use the MRTS should seek to replace so as to combat air pollution) will remain totally

[8] I have lived in Delhi since 1969, and the first time I heard of Holimbi Kalan was when the MRTS project was announced! See my 'Delhi's MRTS: A Critique' in *The Economic Times*, 12 September 1998.

outside the MRTS system. Here, there is enough money to pay the fares. Instead, the authorities have deliberately chosen to offer the only completely underground section to students of our heavily subsidized higher education system—who will undoubtedly claim (and obtain) 'passes' to use the underground at highly uneconomical rates. A hitherto unknown place called Holimbi Kalan will see the land speculators move in and, ultimately, 'develop'. It might even become a remote 'township'. However, there is nothing for the innumerable real towns that surround Delhi—nothing for the much talked about National Capital Region. Primacy reinforced.

It is this that makes the population 'problem' a strongly impressionistic one. You travel out of overcrowded cities on narrow 'highways' through crowded towns and the 'population problem' hits you in the face. You also think that this misery and squalour has a lot to do with 'poverty'. To the trained eye it is simply the undersupply of an essential public good:[9] roads. What we see is commerce on the street: too much commerce, too little street. This is not 'poverty'. Nor is this the 'population problem'. These are busy urban economies crippled by primacy. From all these urban economies a huge amount of indirect taxes are collected. These are not invested in what these economies sorely need—and what they pay for. We shall, in the light of this stark reality, examine the rationale of the Indian state which, with 'planners', claims intellectual and moral superiority over the random effects of market forces.

COLONIAL URBAN DEVELOPMENT: A CONTRAST

Some idea as to what is likely to transpire if market-driven urban development occurs can be obtained from an examination of a period

[9]A 'public good' is something that cannot be priced and sold, or from whose consumption people cannot be excluded. In the old days, roads, parks and lighthouses were listed as public goods. Today, economists are more circumspect when listing 'pure' public goods. Highways, which were once listed as public goods, with the ideas put forword by Gabriel Roth in *Roads in a Market Economy* (Avebury Technical, Aldershot, 1996), can be supplied by the market quite easily. Roth advocates setting up a dedicated highway fund outside government control to which monies from fuel levies and motor tax are directed. This fund disburses money to highway companies—both public and private—in accordance with the vehicle-miles carried on their roads, measured through shadow tolling. Urban and rural roads still remain 'public goods'.

in time when India did have an urban explosion: the colonial era. What is especially remarkable is the development of over 80 'hill stations' around the four major metropolitan powers—Delhi, Calcutta, Bombay and Madras. These comprise the Shimla-Mussoorie belt near Delhi; the Darjeeling-Shillong belt around Calcutta; the Poona-Mahabaleshwar belt near Bombay; and Ooty and the Nilgiris near Madras. The role of transportation is clear—Darjeeling had its rail link before Japan had heard of railways—as is the role of free-market real estate development. The importance of sound municipal organization is evident. The role of technology in setting up these new towns cannot be understated:

> Whether in relation to the sciences of geology, surveying or cartography or the technologies of road, bridge or railway construction, knowledge and techniques originating in the urban-industrial processes of the eighteenth and nineteenth centuries were first introduced, and then developed in the colonial environment of India.[10]

Since this process of urbanization halted, these hill stations have also become centres of local primacy. In the hills the lesson is even clearer—that roads get land into service. The undersupply of roads has created some sort of local primacy in which the principal hill town—usually also a state capital—becomes unduly important in the local urban hierarchy of the hill state.

These hill stations developed because of strong links to a metropolitan power. The same metropolitan powers—and many more new ones—can finance an urban boom that will wipe out poverty, solve most of the 'real life' problems of Indians, and even save some of the most beautiful places on earth.

To most people educated in the language of 'poverty', the thesis that urbanization is a cure may seem a little far-fetched. What about the 'villages' in which the 'real India' lives, they might ask. The NGO movement, which has focused its attention on 'rural development' may also raise an eyebrow. However, to the international NGO movement, the fact that urban areas present both challenge and chance has not been missed. A large group of major NGOs, including Oxfam, Homeless International, Intermediate Technology

[10]King, A.D., *Colonial Urban Development,* Routledge & Kegan Paul, London, 1976, p. 165.

and Water Aid have come together to bring out a brief volume entitled *The Urban Opportunity—The Work of NGOs in the Cities of the South.*[11] The word 'opportunity' in the title signifies that an urban vision is dawning over the NGO movement.

VISION

As Thomas Sowell wrote in *A Conflict of Visions: Ideological Origins of Political Struggles,*[12] people have different 'visions' of the way in which the world works. Political struggles occur when these 'visions' come into conflict. Sowell defines vision as a 'pre-analytic cognitive act'. That is, a 'vision' is something that you have cognition of prior to thorough analysis. Sowell says that 'visions are foundations upon which theories are built.' His book looks at many 'conflicts of visions', including the one in development economics between Lord Peter Bauer and Gunnar Myrdal. Lord Bauer favoured the market and Gunnar Myrdal believed in the state and its 'intellectual-moral elite'. Gunnar Myrdal shared the 1974 Nobel Prize in Economics with Friedrich Hayek, the free-market philosopher whose theory of knowledge we have already encountered. By making the two share the prize, the Nobel Academy showed that it was not taking any stand on this particular 'conflict of visions'. The Indian state greatly felicitated Gunnar Myrdal, conferring upon him a prestigious award. Today, it is this statist vision that has crumbled, and it is the alternative thoughts of people like Hayek and Bauer that have to come to the forefront and engage the statist vision. For that to happen, exposing the fallacies of the statist stand on population and urbanization is sufficient.

India is urbanized enough to have tremendous urban potential. The opening chapter of Derek Hall's *A Spatial Analysis of Urban Community Development in India*[13] begins with a quote from an Indian scholar of urban development, which says it all: 'How many countries have 148 big cities?'[14] Herein lie the opportunities—as even the NGO

[11]Hall, N. et al., Intermediate Technology Publications, London, 1996.
[12]Quill, New York, 1987.
[13]Wiley Research Studies Press, New York, 1980.
[14]Ibid., citing A. Bose, *India's Urbanization 1901–2001,* 2nd edition, Tata McGraw-Hill, New Delhi, 1978, p. 18.

movement has realized. The statist 'vision' of the population problem is clearly a 'pre-analytic cognitive act'. A little analysis reveals its falsity. The proof that population causes prosperity can be condensed into four words: Urban Areas Are Rich. What this achieves is miraculous in terms of the political struggle that must be waged if India is to be freed of statism. This proof turns the statist vision on its head. Instead of rural, we suddenly talk urban. And instead of poverty, we speak the language of prosperity.

And indeed this is the historically proven vision any 'civilization must have of its future. It bears repetition that the word itself has its root in the Latin *civitas,* meaning 'city'. Ancient India was rich and urban. Harappa and Mohenjodaro were the best planned cities of the ancient world. From the port of Lothal we understand that urban prosperity is greatly dependent on transport connections to other urban centres, so that commerce can transpire. The Mediterranean was the cradle of civilization simply because it allowed many urban areas to develop and link up. Globalization, in the modern world, will allow all the urban centres of the world to link up and play a role as hubs and spokes of the global economic system. India, with its policy-induced primacy, is denying development to innumerable urban areas. It is this false vision that keeps the country poor.

When Indians realize that economics is about prosperity, that urbanization is the way to get there, and that our population is no hindrance, they will suddenly see an India with a hundred Singapores, highways that Germans would love to drive on, excellent systems of urban public transportation, thriving central business districts and well-laid out and spacious suburbs. A 'developed' country no longer in need of the fallacies of 'development economics'.

IMMIGRATION CONTROLS

Immigration control is universal, and it is a severe restriction on human freedom. It is based on the notion that population is a problem; therefore we should not be free to settle wherever we please. Immigration officials—the rudest bureaucrats on the planet—take these decisions for us. They have made immigration a statist racket. There is no place on earth without 'illegal aliens'.

This is a relatively new phenomenon. Not very long ago, anyone could go anywhere his fancy and his money took him: the travelogues

of Huien Tsang, Marco Polo and Ibn Battuta speak of a world without any controls on travel or choice of residence. Indeed, migration is natural to human beings, otherwise we would have all been in some rift valley in North-Eastern Africa! Man has always searched for 'greener pastures' and by this he has come to inhabit almost the entire planet. As I write, geographers are attempting to demonstrate how the Aborigines first inhabited Australia by taking a raft across to the southern continent from a remote Indonesian island. Indians themselves have migrated outwards, spreading their culture in Burma, Thailand and Indonesia. Indians are also seen as prominent communities in Africa, the UK, America, Canada, Australia, Singapore, Malaysia, Surinam, the Fiji Islands and the Caribbean. India has also accepted mass migrations, from the Aryan to the Islamic. The histories of the tribes inhabiting the North-East of India also reveal that they migrated from further afield. Why is every state—in a world in which we are all divided by and ruled by states—opposed to free immigration today? And what are the consequences of immigration control?

At the outset, let us note that in the past a lot of emigration has been with the use of force. Slaves worked in the Caribbean and the southern United States. That is, human beings were a resource that were secured through the use of force. Strange today that all states use force to ensure that human beings cannot go where the market calls them. Prosperity is the result of various human beings, in their individual capacities, acting upon market signals with their knowledge, to better their own economic circumstances. When masses of humans take the decision to migrate for bettering their circumstances and states stop them, how can the world be prosperous?

Immigration control is most detrimental to the interests of poor nations—which are in a position to export labour. If we look at the three aspects of the global market—capital, product and labour—we see that the capital market is the most open, while that for labour is the most closed. That for products is in between, and with the WTO in action, this market should soon be open too. Obviously, then, the greatest gains will go to those who are selling capital and products in the global marketplace. It will not go to those who are selling labour—the poor countries.

There is a growing belief that a truly global market can be obtained for skilled labour. This is a knowledge driven society—and skilled

labour has a world market: the employment ads in *The Economist* prove it. Recently, the US had problems because of a shortage of skilled computer personnel, and US firms lobbied for easier immigration. One comment made by a senior Intel executive was: 'We should staple green cards on to every PhD diploma.' Makes absolute sense. But why then not for nurses, barbers, masons, carpenters and the like—who are also skilled workers. Indeed, why immigration control at all? Why not global methods of knowledge certification?—the basis of a global human skills market.

Countries like Australia, Canada and USA, if they were completely open to outsiders, would only face an urban boom—not a bust. The prosperity equation proves it. But people in these countries believe that human numbers are a 'problem'. This is not only absurd, for we have seen that only human beings can create wealth, it is also quite unfair. As Ken Schoolland points out in the charming *Adventures of Jonathan Gullible,* immigration control by rich, empty nations is 'old newcomers stopping new newcomers with a pull-up-the-ladder law.' In any case, the enforceability of this law is quite difficult and expensive. India, at least, cannot enforce immigration control across its borders.

In traditional Indian morality, a foreigner is treated with hospitality and respect. This morality is based on economic common sense: the foreigner is a resource for the community. He brings news, knowledge, skills, foreign produce and so on. He can trade these and buy local produce. This fundamental morality and common sense has somehow been lost in India today. Migrants from Bangladesh face hostility from nationalistic politicians with their short-sighted jingoism. Assam, which was developed by many migrant communities, now has a problematic political movement designed to keep Assam for the Assamese!

If free immigration is a political impossibility today, then at least a market for immigration rights must be opened up. Instead of bureaucratic agencies deciding, there should be a market wherein one can buy the right to migrate to any country of one's choice. If this market is established, the countries with better governance will command high rates; and the countries with bad governance will face an exodus. This little market will create competition between states. Governments will compete for citizens. Today, we are indentured to our states.

With free immigration much of the world's problems with growth will go away. Economists have an analytical tool called the Production Possibility Frontier which says how much can be maximally produced by a nation with different combinations of labour and capital. The world also has such a frontier. With free immigration, more people from poor countries will be able to combine their labour with better capital, infrastructure and institutions in rich countries. The entire world's PPF will surge outwards.

A LOVE FOR HUMANITY

The final point worth noting about those who believe that human numbers are a problem is that it is a world-view that does not love humanity and does not see human beings as 'the ultimate resource'—in the words of the late Julian Simon. More humans should mean more of a precious resource. Population doomsday-speak gives the impression that human beings are not a resource but a source of trouble. This is a false world-view that is typically elitist and snobbish —because it is usually the poor (or the non-white) who are accused of uncontrolled expansion. Statisticians who record an increase in the GDP when a calf is born, but reduce per capita income whenever a human infant is born, sustain this false world-view. Are human beings not worth anything? Should some discounted value of a human life not be added to the GDP whenever a child is born? Do we look upon our children as a dead loss or as future breadwinners? If we see animals, who do not have an economy and hence no wealth, what do we see them valuing the most: their children. Children are wealth—the greatest wealth.

Given the conditions mentioned in the prosperity equation, human beings can create an enormous amount of wealth and also manage to adjust their numbers to the resources available without any statal interference.

The view that human numbers are a problem also views disasters like wars, epidemics, earthquakes and the like as yielding some fringe economic benefit: they help to solve the 'population problem'. These are not seen as unmitigated disasters with nothing whatsoever positive about them. Road accident statistics are sometimes viewed similarly in India: 'At least our horrible roads are lowering our uncontrollable

population' is an oft-heard cynical remark. All I ask is: Does this view demonstrate a love for humanity? If not, why ascribe to it?

Yet, the sorry fact is that the entire Indian political establishment believes in the population problem. Here the BJP government's National Agenda of Governance agrees with the Congress stand at Panchmarhi. Indeed, on the 50th year of Independence, the parliament passed an unanimous resolution saying that population was India's biggest problem. Sonia Gandhi attended a seminar recently to commemorate the 52nd birth anniversary of Sanjay Gandhi—under whose illegitimate direction the strong socialist state used coercive means to control our numbers—and called for a national 'movement' to solve the population problem!

It is not the people but their rulers who are the real problem.

2. STATE!

—or How the Indian socialist state is a predator

Eating People Is Wrong
Title of a novel by Malcolm Bradbury

The problem with most politico-economic thinking is that it fails to analyse the nature of the beast it seeks to advise—the state. From the Communists to Keynes, down to the 'development economists' who insist that government intervention in market processes is necessary to promote 'social' ends like the alleviation of poverty—the assumption remains that the state comprises people who act as Platonic Guardians.

At the London School of Economics and Political Science, the MSc course of study at the Department of Government begins with a thorough understanding of the theories that have been used by different schools of thought to analyse the state. The basic textbook, written by two fine scholars I am happy to know, Patrick Dunleavy and Brendan O'Leary, is *Theories of the State: The Politics of Liberal Democracy.*[1] The subtitle reveals an intellectual grounding that is a little removed from Indian reality.

Our democracy is not a liberal democracy in the true sense. Someone once said that there were three pillars of liberal society: the political freedom of democracy; the economic freedom of the market; and liberal education. In India, unfortunately, we have only political democracy—that too without vigorous institutions of local

[1]*Democracy,* Macmillan, London, 1987.

government. Laws like FERA (our draconian exchange controls) demonstrate how little economic freedom we have. And most of our higher education comes from the state: it is not liberal education. It does not teach the value of freedom. Therefore, at the outset, it may be said that the Dunleavy and O'Leary textbook does not look into theories concerning the nature of a state in circumstances like ours—bereft of liberal democracy. However, it would be useful to briefly examine how people from different schools of thought have examined the liberal democratic state, and see how their theories have surprising commonalities. We can then proceed to inquire into the nature of our own state.

The journey ahead promises to be slow reading into the innards of political science, but it should be richly rewarding to the lay reader. We have already noted the basic fallacy of Indian economics: it is not a study of prosperity. Similarly, we must examine a basic fallacy of Indian political science, which gives exaggerated status to the state. Indian socialism is better called statism, for it places the state above society. Living in such a society, especially after seeing that its economics is false, it is vital that we study the nature of the all-powerful state. As John Hoffman pointed out, the three concepts—state, power and democracy—are 'contentious'.[2] The state claims to be the legitimate user of force—and the question arises whether the use of force can ever be truly 'legitimate'. Power, which the state commands, begins at one level as the ability to restrict economic choice. It goes on to political repression, sovereign acts of war, and the use of statal intelligence agencies. Yet democracy, as a concept, seeks to diffuse power. Thus, Hoffman said, the three concepts—state, power and democracy—are 'contentious'. They do not sit easily by each other. That is another reason to be interested in what follows: an inquiry into the concept of 'state'.

THEORIES OF THE STATE

Dunleavy and O'Leary's *Theories of the State* encompasses five schools of thought. The first of these is Pluralism and the last is Neo-Pluralism—and it is interesting to see how the 'neo' got prefixed.

[2]Hoffman, J., *State, Power and Democracy,* Simon & Schuster, New York, 1988.

Pluralism believed in a world of open and competing groups with no one really dominant and many centres of power—the ideal of democracy. Unfortunately, the world is not such, and the hollowness of the school's beliefs were soon exposed to its adherents—who rushed to seek a new label.

Pluralism—the notion that there are many groups and none really dominant—was challenged by two other schools of thought: the Elite Theorists and the Marxists. The Elite Theorists look upon the state as being an instrument in the hands of a 'power elite'. They coined the expression 'military-industrial complex'. Marxists, similarly, believe the state (and they too are looking at the western liberal democratic state) to be an instrument in the hands of the bourgeoisie: the capitalists. Thus, both the Elite Theorists and the Marxists disagree with the analyses of the Pluralists. They do not see the open and competing groups that Pluralists see; they see, instead, an elite controlling the state in its own interests. Thereafter, the Elite Theorists and the Marxists disagree on what should be done, but that's another story.

Pluralist analyses were further disproved by many successive studies and also by some penetrating politico-economic reasoning into the nature of the group formation process. Mancur Olson, in 1965, published *The Logic of Collective Action* which inquired into the economic reasons why groups form, how they are maintained and how and when they act. Pluralists, with their belief in 'open and competing groups', had overlooked inquiring into the economic reasons of group formation. Olson showed how important was the role of economic incentives and disincentives in maintaining groups—you cannot run any trade union without them—and also how particular kinds of groups were more likely to form than others. This is one of the many reasons why most Pluralists redefined themselves as 'Neo-Pluralists'.

The only other school of thought left to discuss from the Dunleavy and O'Leary textbook is the New Right. Naturally, it is different from the Old Right, but that, again, is another story! The New Right came branded as Reaganism and Thatcherism: free-market thought which stresses the political value of freedom. This is a school of thought that looks at the state very sceptically, preferring it to be extremely small but highly accountable and participatory: the conservative view. At the extreme there are also those who deny the

state any role in free society, and prefer what is called 'anarcho-capitalism': the completely free market.

In political science, the New Right also had the ammunition of public choice theory. In free-market economic theory, every human being is assumed to be 'rational'—which means that he or she will act in his self-interest. Adam Smith gave the famous 'baker, brewer, butcher' argument—these three gentlemen provide us lunch not out of benevolence, but because of their 'self-love'. When this assumption is carried to the political market, predictions that emerge coincide remarkably with widely observed events—indicating the validity of public choice theory.

This is only an assumption that is useful to theory. The purpose of theory is to predict behaviour. When we assume people are rational, we can easily predict behaviour. This business of human beings being selfish is not a prescription; it is merely an assumption. It is not to suggest that each of us should be purely selfish, or to discredit altruistic human behaviour. Adam Smith, the father of free-market thought in the west, was a professor of moral philosophy who said that 'to feel much for others; to restrain our selfish, and exercise our benevolent affections, constitutes the perfection of human nature.'[3] It is most unfortunate that, in a survey done in US universities, professors of economics were rated as the most selfish: they obviously took the assumption to be a prescription. This is not what Adam Smith had intended. The philosophy of the market has its morality—the subject of another essay—but this, sadly, many eminent teachers of the subject, belonging to the same school of thought, have not grasped.

PUBLIC CHOICE

Public choice theory concerns itself with the choices we make as members of collectives, i.e. the choices we make in public, through the liberal-democratic policy-making process. This is no longer economics. It is political science with tools of economics, and it makes telling analyses of the consequences of selfish behaviour on the part of politicians, bureaucrats and interest groups: the main actors in liberal democracy.

[3]Edwards, T. et al. (eds.), *The New Dictionary of Thoughts,* Standard Book Company, 1961, p. 44.

For the liberal-democratic state, public choice theory has emerged as a significant challenge to the assumption of statal benevolence. The term 'public choice' signifies that just as we make 'private choice' in the market, decisions regarding resource allocations from the public purse are made in a 'political market'—and the manner in which this market works can be analysed using the familiar tools of the economist. The popular TV serial, *Yes, Minister*, which amused millions with the self-interested behaviour on the part of politicians and bureaucrats, was inspired by public choice theory.

To reiterate: resources can be allocated through two markets—the private market and the political market. The principal players of the private market are businessmen and consumers. The principal players of the political market are politicians, bureaucrats, vested interest groups and voters. In the private market, everyone is assumed to be working in their self-interest, trying to obtain the best deals. Towards this end, they possess the incentives to minimize costs, trace and correct past mistakes, to innovate and to acquire all the necessary information. Resource allocation through private markets is, therefore, 'efficient'. Political markets are different. The self-interest of its participants—assumed in public choice theory—works to disprove its claim to 'intellectual-moral superiority'.

This phrase requires a little explanation. Since planners are not supposed to be guided by the profit motive that guides capitalists, they claim moral superiority over market forces. Further, because they 'plan' everything in an 'expert' manner, they believe themselves to be intellectually superior to those who merely respond to the random workings of the market.

Public choice theory, with its assumption that all players in the political market are 'rational' (and hence selfish) exposes the hollowness of the state's claim to both moral and intellectual superiority. Its minions are not the Platonic Guardians they are assumed to be.

Politicians are primarily interested in re-election, and will pursue expenditures that will return them to seats of power. I.K. Gujral obtaining the Planning Commission's sanction for an international airport for Amritsar, even as his government was bowing out, is a good example. Generally speaking, guided by the desire for re-election, politicians will lavish money on 'populist' measures.

Politicians allocating scarce resources through the political market have bankrupted all our state electricity boards.

The self-interest of bureaucrats comes into play in two ways. First, they will tend to protect their 'turf', and second, they will 'rationally' seek the maximum possible budgets for their departments. All over the world, these traits of bureaucracy led to the phenomenal growth of statal budgets, which refused to come under control despite strong political will. A nation with a history of imprudent deficit financing, whose completely dysfunctional—and enormous—bureaucratic machine extracts huge undeserved pay awards in the face of a spiralling deficit, should note that a vast, entrenched bureaucratic system is not as 'benign' as it is assumed to be.

Interest groups and voters have the same motive in the political market—they want free lunches. Some direct benefit at someone else's cost —all mediated by the state. This explains all the 'populism' in government expenditures: Andhra Pradesh's two rupees a kilo rice giveaway is a good example, as is free power to Punjab's farmers.

Public choice theory emerged in liberal-democratic societies to analyse the flaws in the democratic policy-making process, and the causes behind the phenomenal growth of government budgets—and deficits. Using its methods, various 'models' of political markets have emerged: the US model, two British models (pre- and post-Thatcher), an Italian model and even an African model.[4] I have not yet heard of an Indian model. Perhaps the fact that the state owns almost all higher education in economics explains the reluctance to undertake research that begins by dumping the assumption of statal benevolence that marks the subject today. Indeed, it is sad commentary on the Indian education that public choice theory is not taught at the premier Delhi School of Economics.

The intention here is not to create a public choice 'model' of the Indian political market. It is to inquire further into the nature of the Indian state and see how far from 'intellectual', 'moral' and 'benevolent' it is. Public choice theory is a good starting point, and it points to the distortions in the political market caused by the democratic policy-making process. But these are typical of any liberal democracy.

[4]For more details, see Christopher Foster and Plowden Francis, *The State Under Stress,* Open University Press, 1996.

THE SOCIALIST DEMOCRATIC INDIAN STATE

The Indian state is socialist. India's is an economy designed for the state to be at the 'commanding heights'. In a country where there isn't a single highway of quality, the state owns 50 per cent of a highly successful car company! This is not resource allocation for maximizing public welfare. It is resource allocation designed to remain at the crumbling heights of the command economy. The true nature of the Indian state deserves thorough analysis because it has taken over vast economic powers.

Further, the Indian state lacks democratic accountability from below: no grassroots democracy here. There are no functioning institutions of local government. This remains a bureaucratic preserve, and a non-priority. The hot air on *panchayati raj* has a 'rural' orientation. It is far more important to have effective systems of running urban areas—cities and towns—with expertise as well as democratic accountability. The present system lacks both. It must be replaced root and branch. Urban governance, traffic regulation, mass transportation, garbage disposal—these are areas crying out for expertise. The only 'reform' the state is contemplating is further democratization of these institutions. Democracy will only induct more spoil seekers into a corrupt, ineffective and ignorant way of running those parts of the country that generate the most wealth—and on whose proper development the future prosperity of India depends.

If an example of unaccountable system of civic governance is required, one can cite the capital, New Delhi. By the time this is in print, things may have changed somewhat, but what follows is the way New Delhi has been run for quite some time. There is a Lieutenant-governor answerable to the centre, a Chief Minister who does not control even the traffic police, two municipal organizations and an unaccountable statal land and housing monopolist called the Delhi Development Authority. Together, these worthies have run the city to the ground—and completely evaded public accountability. And yes, we also have a Mayor.

The rest of the country has simply followed suit with similar statist systems of urban governments. Almost every big city is a state capital —in which case the state government runs the cities. Otherwise, they are run by statal urban development authorities answerable directly

to the state government. It becomes extremely important to thoroughly analyse the nature of the state in a country where it not only wields vast economic powers, but also escapes accountability at the level of city, town and village government.

THE PREDATORY STATE

Prof. Deepak Lal, looking into 'possible government forms and the objectives they seek to subserve' found it useful to speak of two poles: the Platonic Guardians and the Predatory State.[5] Mancur Olson —the man who took a lead in using the tools of the economist in political science—found it difficult to accept the use of the metaphor 'predatory state'. He said that this is 'misleading—even for autocracies'.[6] Olson was not one to look at the state with rose-tinted glasses. His objection to the term 'predatory state' is based on sound reason.

Olson's analysis begins by looking at how the state emerges out of anarchy. Under anarchy, what happens is 'uncoordinated competitive theft' by groups of 'roving bandits'. This destroys the incentive to invest and produce. It makes sense for one of these roving bandits to destroy the competition, set himself up as dictator, and 'rationalize theft in the form of taxes.' The state as 'stationary bandit'!

> In a world of roving banditry there is little or no incentive for anyone to produce or accumulate anything that may be stolen and, thus, little for bandits to steal. Bandit rationality, accordingly, induces the bandit leader to seize a given domain, to make himself the ruler of that domain, and to provide a peaceful order and other public goods for its inhabitants, thereby obtaining more in tax theft than he could have obtained from migratory plunder. Thus we have 'the first blessing of the invisible hand': the rational, self-interested leader of a band of roving bandits is led, as though by an invisible hand, to settle down, wear a crown, and replace anarchy with government.

[5]Lal, D., *Against Dirigisme: The Case for Unshackling Free Markets,* International Centre for Economic Growth, San Francisco, 1994, p. 34, citing his 'The Political Economy of the Predatory State', DRD Discussion Paper No. 105, World Bank, Washington DC.

[6]Olson, M., 'Dictatorship, Democracy and Development', *American Political Science Review,* Vol. 87, No. 3, September 1993.

Olson denies that his autocrat, Mr Stationary Bandit, can be called 'predatory':

> [The Stationary Bandit]... is not like the wolf that preys on the elk, but more like the rancher who makes sure that his cattle are protected and given water. The metaphor of predation obscures the great superiority of stationary banditry over anarchy and the advances in civilization that have resulted from it. *No metaphor or model of even the autocratic state can therefore be correct unless it simultaneously takes account of the stationary bandit's incentive to provide public goods at the same time that he extracts the largest possible net surplus for himself.*[7]

'Public Goods' are those which cannot be priced and sold, or from whose consumption people cannot be excluded—like law and order, roads, clean air, parks and, in the old textbooks, lighthouses. These are areas where private money will not come in simply because private businessmen cannot charge people for consuming them. Hence, it is vital that public investments are made in them. According to Olson, even a stationary bandit would find it 'rational' to invest in public goods.

UNDERSUPPLY OF PUBLIC GOODS

The resource allocation of the Indian political market, it is obvious, has diverted resources away from public goods—especially one important public good, roads. The congestion of our cities, the underdevelopment of secondary and tertiary towns, the high price of urban land, the rural–urban divide—all these are caused by the undersupply of roads, a public good. What makes the Indian state undersupply public goods—something that would be 'irrational' even for an autocrat? When one drives on the narrow 'highways' through busy urban economies (which generate all the state's tax revenue) crippled by 'primacy'—the absence of sound links to the principal city—one is forced to reconsider the metaphor of the 'predatory state'.

The strong Indian socialist state is assumed to be benevolent, intellectually and morally superior, and acting in the 'public interest'. Yet, its record on public goods reveals that the Indian state does not even behave like a 'rational' dictator. Far from being the ideal

[7]Olson, M., ibid. (emphasis added).

'stationary bandit', it has been unable to monopolize force in many parts of the country, where, in reality, 'uncoordinated competitive theft by roving bandits' has left little incentive for the people to invest and produce—and even less for the bandits themselves. Assam is a good example.

The other important public good every dictator must provide, apart from roads, is law and order. But right at the border of every town and countryside is complete lawlessness. The Chambal is 100 km from a major town! When I first undertook writing this essay, the newspapers were full of the ghastly story of the murder of 50 Bihari villagers by the Ranvir Sena. The map revealed various towns located around the village in which the incident took place. The district adjoins Patna, the state capital. Nearby towns are Arwal, Jahanabad, Daudnagar and Paliganj. The *Indian Express* reporter said it took a 3-km trek to reach the village! What kind of policing can there be without the basic public good—roads.

The Intelligence Bureau was originally set up to combat *thuggee*—competitive banditry—on Indian highways. Law and order and roads are essential public goods for sustained prosperity and happiness. Neither of these are being provided by the strong Indian socialist state to the level required The courts system is also hopelessly clogged. *Newsweek* magazine cited statistics quoted at the World Economic Forum Meet in Davos, Switzerland, which said that, even if it stopped taking in new cases, the existing backlog with India's Supreme Court would take 324 years to clear! There is an undersupply of every essential public good. And that's supposed to be 'irrational' even for a stationary bandit! Recently, there was a lot of news in Delhi about double murders in an up-market South Delhi locality called Saket. I have known Saket since it first developed in the late 1970s. It has a McDonalds, a cine-complex theatre, two shopping centres and a huge, prosperous, tax-paying population. It still does not possess a police station! You have to go to adjoining Malviya Nagar to register your complaints. What kind of a state is this?

The Indian state exists to serve the poor. Every party wants to be 'pro-poor'. But how can such a state be a predator? The answer lies in its economics. The Indian state does not believe in the market: that all the state needs to invest in are public goods; the market can handle the rest. It believes, instead, in socialist planning. This socialist planning wanted the state at the commanding heights—by investing

public money not in public goods but in private ones—like steel plants, airlines, hotels and even an automobile plant. Had these private goods been left to the private sector, and had the public purse invested instead in world-class public goods—especially a world-class highway system and top-quality policing—the picture today would be radically different. Economics says that our happiness is closely related to what we consume. Apart from the private goods we consume, if we could consume more public goods as well, we would definitely be happier. We live in crowded localities with narrow streets, while Americans enjoy wide avenues: public goods. These matter especially to the poor rural folk, who need to connect to urban markets. The planners look at things differently.

To demonstrate that the state is pro-poor, the planners ensure massive statal expenditure on the eradication of poverty. Various subsidies are also meant to benefit the poor. The state spends huge amounts this way. These subsidies are not always well-targeted. There are many leakages. That is the wealth of society being frittered away. The planners also believe in spending on 'employment generation' while simple economics proves that employment is not generated when urban taxpayers' money is spent by the state on the politics of the countryside: the same amount of employment would have occurred if taxpayers had spent this money themselves, or invested in the market. More national wealth being frittered away. The state believes in political banking, and so wipes out the nation's savings and the health of the banking system with 'loan *melas*'. The state believes in the public sector and huge amounts are invested in many industrial undertakings which only amass losses. The few that bring in some profits are touted around as '*ratnas*'. It should not be missed that the state has invested in these undertakings, run by its own favourites, but it has not invested in public goods. Predator?

THE POLITICAL MARKET

The fact that our nation was very wrong to place maximum emphasis on the political market—the state and its planners—in resource allocation can be proved with a very simple piece of economic reasoning, for which I must thank Dr Parth J. Shah of the Centre for Civil Society, New Delhi. He credits it to Milton Friedman—so this little bit of logic does have an impressive ancestry.

There are four ways of spending money. You can spend your own money on yourself; you can spend your own money on someone else—gifts; you can spend someone else's money on yourself—as on the 'company account'; or you can spend someone else's money on someone else—planning. Efficient resource allocation occurs when all the wealth of society is well invested. That will only happen when people spend money in a manner that seeks to minimize costs and maximize benefits. People who spend other people's money on other people do not spend money efficiently. We live in a country that has opted to place maximum reliance on the state in resource allocation. Statal personnel have no interest in spending our money well.

Now, where a state is seen to lack the rationality of a stationary bandit, and where it cannot therefore be considered to comprise an 'intellectual-moral elite', that state, its institutions and its personnel are quite open to the charge of being the predators Deepak Lal spoke of. Lal himself put the point across thus:

> Mere tinkering was not going to help India escape from the economic irrationalities introduced by public policy. Economic growth would continue to be throttled as long as the country tolerated the unholy combination of ideas and interests that had turned its civil servants—most of them decent and intelligent people—into mere instruments of predatory politicians and their clients. Although my colleagues were deeply concerned about the situation, they attributed it to a lack of political will, rather than to India's policies, which were based on ideas they themselves espoused.
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> When it was suggested that India needed to liberalize its economic controls, a highly intelligent and idealistic civil servant responded that my whole case was based on the erroneous assumption that the businessmen on whose decisions the economy's investment and production outcomes would then depend were honest, whereas the Indian businessmen we knew were not. Nothing I said would convince him that market forces took little notice of honesty or benevolence, or that the current alliance of dishonest businessmen and the politicians who granted them monopolistic favours would do more harm to the country's economy than if they were forced to compete with other dishonest businessmen.[8]

[8]Lal, D., *The Repressed Economy,* Edward Elgar, Aldershot, 1993, p.11.

It is time that India's senior bureaucracy, who consider themselves an intellectual elite recruited through one of the world's toughest competitive tests of intellectual ability, realize that their entire philosophical system is false—and dump it. And then work towards actually building a happy, free and prosperous India.

PETTY PREDATORS

The image of the state as predator becomes clearer when we see the situation on the ground, when petty personnel of the state—municipal workers and the constabulary—actually prey on unorganized urban commerce: the 'informal sector' of hawkers, vendors and petty traders. The word *huftha*—meaning a weekly illegal tax to these authorities—is well known throughout urban India. Singapore's stationary bandit removed 2,50,000 hawkers from its Central Business District by creating special markets for them in outlying residential areas. The state observed the hawkers at their new location to see how much they earn. When it was seen that this informal economy was indeed one of the most lucrative, the government was able to tax those who were once just pavement hawkers and ensure their progression to the tax paying middle class. What transpires under the predatory state is quite different.

In a letter to the *Indian Express* (27 November 1997) Sajjan Singh of New Delhi listed the reports of crimes by policemen which made news 'within the last couple of days':

- A refrigerated water vendor was beaten to death by a policeman because he refused to pay Rs 100 daily to sell outside Empire Circus.
- A fruit seller was done to death because he did not supply 5 kg of mangoes to a policeman.
- Reports of palmists and other vendors in various city markets being allowed to operate only upon illegal payment to police and municipal functionaries.
- Reports of traffic policemen collecting money from all commercial vehicles—trucks, buses, taxis and three-wheelers.

This predation on the informal economy by the petty personnel of the state is an extremely grave matter. These are the smallest traders

—the tiniest players in the market place. They can grow—if they are allowed to keep their surpluses and the urban markets in which they function are suitably organized. The data suggests that in Asia, the informal sector is growing at twice the rate of the formal one. As our prosperity equation said, trade is the basic means of economic achievement—and these vendors and hawkers are but little traders. They need the other factors of the prosperity equation in order to really explode as a commercial force. And the one factor they especially need is towns. These have to be designed for efficient commerce, and for that we need towns with more public goods like public spaces, broad streets and open markets.

It is a pity that the BJP-led coalition's election manifesto—in its earlier as well as present form—promises to invest 60 per cent of total outlay in 'rural development'. This will undoubtedly go to feed the politico-administrative spoils system. Investing in India's teeming urban areas would have been much more intelligent. That would have been following our PK + 3TC + F + S equation. Especially if this investment was made in the third T: Transportation. Someone once said that every great city sits like a spider on its transportation network. Ours, unfortunately, lack this network and so, unlike spiders, they remain like masses of jelly on a map.

The fact is that it is the urban areas which generate tax revenue. Most of our tax collection is indirect. Delhi collects over Rs 5,000 crore in sales taxes every year. Imagine what all the urban centres of India collect individually in their markets. Whenever something is sold, it is the final buyer who pays all the taxes that went into it: sales, excise and what have you. These final buyers are maximally urban, and these taxes are maximally collected in urban markets. But the proceeds are invested in this gala enterprise called 'rural development'. It is one big hoax. A car needs an engine. So does an economy. Cities and towns are economic engines—not sleepy villages. These should be bolstered by superlative public goods, especially law and order and transportation with the vast countryside —enabling the forces of urbanization to spread far and wide, and to enable villagers feel the winds of the powerful urban economy. Instead, for 50 years, this business of rural development has milked urban economies and invested in all the wrong things. It continues to do so.

This is predation as well as the all-round competitive uncoordinated theft of roving banditry. At the top, tax money is diverted from public goods to statist schemes: the political economy of a politico-administrative spoils system. At the bottom they prey on the urban economy instead of nurturing it—as was so well done by a stationary bandit like Lee Kwan Yew. This is the anatomy of a predator. The Indian State is a Vampire.

AFRICAN VAMPIRES

If this conclusion horrifies, then we must also face up to the fact that we are not the only citizens of predatory states. There are others in the same predicament. The radical Ghanaian scholar George B.N. Ayittey has for long been writing about the 'vampire states' of Africa. He talks about how, for centuries, Africans had been prospering in their local free economies, with private ownership and free trade. Prices were determined by bargaining—not by local chieftains. And violators were not arrested and jailed. There never was all-round statism. These powerful states with their statist economies came only after colonialism left.[9] In Ayittey's words:

> Consider the development process as embarking on a journey in a vehicle, leaving Point A (state of underdevelopment) and going to Point B (developed state). The road is strewn with obstacles. Development literature has identified a host of obstacles: low income, low investment, low savings, illiteracy, high population growth rates, and so on . . .. The vehicle for this journey may be private or state owned. In virtually all African countries, a state vehicle was taken in the 1960s, but this state vehicle has now broken down. It is a motley collection of obsolete, discarded parts scrounged from foreign junkyards and operates on borrowed ideology. The carburettor was a gift from Norway and the battery was donated by Austria. The tyres came from Britain and China and are mismatched. A headlight is broken and the electrical system malfunctions. Turn the ignition switch and the windshield wipers fall off. The engine sputters and belches thick smoke that pollutes the entire country. There are no brakes or shock absorbers (checks and balances). The fan belt is ripped, which means its cooling system is inoperative.
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> Clutching the wheel of the state is a reckless and unskilled egomaniac who proclaims himself 'driver-for-life' and insists that he, and he alone,

[9]Ayittey, G.B.N., *Africa in Chaos,* St. Martin's Press, New York, 1998.

> must be the driver till kingdom come since the vehicle is his own personal property. Aboard are his ministers, cronies, tribesmen, mistresses, sycophants, and other patronage junkies, who, in turn, have brought along their relatives, tribesmen and friends. A goat has been tied to the rear bumper.[10]

Sounds familiar? Bihar is not far removed from darkest Africa! The state is not the vehicle that can take us to point B—being 'developed'. We must abandon this vehicle and proceed on another path—that of freedom. Freedom, that is, from the state. We need to know how we can live without it. We must, for it is destroying our lives.

[10]Ibid., pp. 32–3.

3. DEVELOPMENT!

—or How to be a 'developed' country

You-hoo-hoo, I wanna be like you,
Wanna walk like you; talk like you, You-hoo.
—King Louis in Jungle Book

'Development economics' is a subject that should guide an underdeveloped nation towards the prospect of someday becoming a 'developed' country. Of course, on that day, the tribe of 'development economists' will become redundant. May that day dawn soon.

Unfortunately, rather than prepare for their redundancy, development economists have created and applied 'knowledge' in such a way as to keep themselves in permanent business. If you apply this 'knowledge' of theirs, you will never become 'developed'. Their basic credo—the cornerstone of their belief-system—is something called The Theory of the Vicious Circle of Poverty. As the very name implies, it is not an optimistic theory. It says that poverty is a situation from which it is impossible to extricate oneself without external help. It holds that poor nations produce less, earn less, save less and naturally invest less. This low investment leads to low production and income, once again a vicious circle. The only way out for a poor nation is foreign aid. This theory was taught to me in my undergraduate course in economics in Delhi University in 1974.

As Lord Bauer put it, if this theory were true, the world would still be in the Stone Age. Every nation that is developed today started off undeveloped. Hong Kong was a barren rock some time ago. It is, therefore, easy to see that this is a false theory. Why is it then taught and propagated? Apparently, many respectable 'economists' regard

this theory as 'useful' for advocating aid flows. They condone this teaching of lies.

Now, aid is government-to-government. Rich states aid poor states. Sounds good, but it may be seen to be reinforcing states that apply harmful policies that keep the people poor while the ruling classes reap fortunes. Foreign aid is an essentially statist enterprise. Therefore, it may be said that 'development economics' is also another statist enterprise.

NATIONAL BORDERS EXPLAIN POVERTY

If the theory of the vicious circle of poverty is false, then what explains the poverty of nations? The late Mancur Olson, arguably one of the finest minds of our time, presented a paper in Delhi a couple of years ago which inquired into the causes behind the huge difference in per capita income between rich and poor countries.[1] After going into every generally assumed cause of this difference—like population, natural resources, level of knowledge, etc.—Olson ruled each out and arrived at a truly astounding hypothesis: the massive difference in average income between rich and poor countries is caused by 'national boundaries'. Implication: certain states, where statism rules, cause poverty. That is, it is the wrong 'collective-choice' we have made regarding our governing institutions and their policies that explains poverty. Nothing else.

This astounding hypothesis is quite easy to prove when we look around us. There are huge differences in average income between North and South Korea; or former East and West Germany; or Burma and Thailand. Within India itself, something must explain the poverty and backwardness of Bihar: a state with an enormous wealth of natural resources. It is easy to see that institutions matter; nothing else. With the right institutions and just laws, freedom is all that is required to get a nation rich. When there is freedom, each of us works hard to earn wealth for ourselves, and in this way we make the entire society rich. Development economics has always stressed the role of the state. It must be emphasized that the state is not an institution which creates wealth. The state taxes and spends. Wealth requires hard

[1]Olson, M., 'A Collective-Choice Perspective on the Indian Economy', Paper presented at the IRIS Conference, New Delhi.

work to create. And that requires freedom, which statism does not allow. That reinforces poverty. Thus, Olson's hypothesis was a direct indictment of India's ruling regime.

Rakesh Mohan, then Economic Advisor to the Ministry of Industry, Government of India, was invited to 'sum up' the conference and deliver his comments on Olson's paper.

> It is not easy to dismiss knowledge. Knowledge is produced by the rigorous application of mind. To refute it, one must do likewise—show application of mind—especially when one wants to refute a man of very high intellectual standing.

Rakesh Mohan said that he disagreed with Olson because the latter had overlooked one factor: weather: Never have hot countries progressed, said this state-owned economist with complete aplomb. What about ancient Egypt, so close to the Sahara? West Asia has been the cradle of ancient civilizations—and hot. North Africa and Spain have been historically prosperous. What about the home front: Is Himachal Pradesh richer than Gujarat? Is the long Himalayan belt richer than the Deccan plateau? A 30-minute discussion was scheduled after the 'summing-up'. But Mancur Olson thanked Rakesh Mohan for the 'deep points' he had raised and wound up the proceedings.

This is not the way the state is expected to treat knowledge. We are all vitally affected if the errors of development economics are publicly exposed. If the state has erred, and this is demonstrated, the state should correct itself—and its expert personnel should aid the correction process instead of acting as a stonewall preventing knowledge from informing not only government, but also society: for society was present at the conference. The press—especially the pink press—was everywhere, and if a senior member of the state's brigade of expert personnel had delivered a meaningful response to Olson's paper, everyone would have been better informed.

The validity of Mancur Olson's hypothesis becomes clear if we imagine a political map of the world without national borders. What remains are hundreds of dots: the world's leading urban areas. They are all rich. The ones in poor countries are also the richest parts of their surrounding countrysides. Economics, remember, is about prosperity.

When we go through a few thousand years of history, noticing how the dots on the map progressed, we see the story of civilization. As the first of these dots linked up to nearby dots, the great economic process of civilization was launched—around the Mediterranean. This shows the importance of urban areas, transportation links and free trade.

Today, national boundaries dominate the scene and many of these dots are in 'poor' countries. Why are the countries poor? Mancur Olson hypothesized national boundaries as the cause. And there is enough evidence to indicate that he is right.

Many of the urban dots on the map today are in countries that have followed statist development economics which completely misunderstood urbanization, and totally discounted the importance of transportation linkages and free trade. These poor countries are run by regimes which have promoted state-owned industrialization, abandoning the economics of prosperity. No wonder they are poor. That is precisely the Indian story, but it looks as if the theoretically apolitical Indian official is loath to admit it—perhaps because it will embarrass his political masters. Is this acceptable to the taxpayers who pay the wages of these 'experts'? How do we expect knowledge to inform government? The role of these experts is even more important in a country where democracy usually puts up the representatives of illiterates.

POVERTY OF A SUBJECT

The Economist often refers to economics as a 'dismal science'. The scenario, of course, is dismal enough: there is too much poverty, and too many 'experts' with too many different views. Some of these views, while clearly in grave and serious error, possess very high degrees of legitimacy. Gunnar Myrdal, for example, received the Nobel Memorial Prize and was hugely felicitated by the Indian state. Now Amartya Sen has been awarded the prize; he is another of those who studies poverty and believes that the majority of Indians do not have the intellectual acumen to survive in a competitive global economy.[2] The poverty that continues in this world is a direct consequence of this statist 'development economics'. Prof. Deepak

[2]Press statements.

Lal, who started off as an Indian Foreign Service officer and then went into academics, served a stint in India's Planning Commission estimating shadow prices. The title of his pathbreaking book, *The Poverty of 'Development Economics'*,[3] says it all. This kind of 'economics' today stands entirely repudiated, and it is high time these false ideas are discarded in their entirety.

Economics is not really a dismal science. It is a science that hopes to yield freedom, peace and prosperity—for the entire planet. It is the application of this science to those parts of the world that remain backward. Today, faulty economics is spreading economic illiteracy in a democracy by telling school children that 'population and unemployment cause poverty.' They will never tell them the causes of prosperity: urbanization, transport and communications, and trade. What is 'development' but the spread of urbanization and prosperity? Neither urbanization nor prosperity feature on the research agenda of 'development economics'. Their false ideas trap the minds of our children in the tautological 'vicious circle of poverty'.

When we see 'development' as a process by which urbanization and prosperity have spread across the globe, we see the relevance of transport, communications and trade. We have, throughout this volume, spoken of the Indian state's neglect of urban areas and transport. It is time to take a look at the third neglected area—trade —and see what lessons can be drawn for the sake of 'development'.

BENEFITS OF FREE TRADE

Trade is the very first economic activity known to man: take this, give me that. The ability to trade is almost instinctive in human nature—Man as *Homo economicus.*

None of God's other creatures possesses this remarkable facility. Their lives lack 'economics'. If say, birds could trade, we would expect to see weaver birds running construction sites with early birds paying for custom-fitted, well-woven nests with the worms they are so adept at collecting. Note that the missing faculty is the ability to trade: the weaver bird can 'manufacture' nests. Bees can 'manufacture' honey. Cows 'manufacture' milk. What prevents 'economics' is the

[3]Lal, D., *The Poverty of 'Development Economics'*, Harvard, Cambridge, Mass., 1985.

inability to trade. The ability to trade is a more important human attribute than the much touted ability to use tools. Trade creates prosperity.

When 'development economics' neglected trade and focused its attention on manufacture, something went very, very wrong—especially in India, which boasts of some of the world's most able 'trading communities'. Our Marwaris, Baniyas, Gujaratis and Parsis are a national economic resource. In London, I overheard someone say that a Baniya could buy from a Scot and sell to a Jew and still emerge with a profit! The neglect of trade amounts to leaving this rich resource untapped. Human resources are vital: we may not have the human resources to make jet airliners, but we have the wherewithal to be a very important trading nation.

Trade brings 'incentive goods' to 'needless' people. There are many who could be called underdeveloped—but they are really not 'poor'. They are simply 'needless'. There is nothing they would work for; everything they need nature has provided them with. Traders bring to these people goods which give them the 'incentive' to participate in the market economy, make their gains and earn these goods: like, say, a radio. Credit cards, for example, allow us to consume the incentives we work for in advance! Not having free trade is stupid because we deny ourselves the incentives we work for. We take shoddy goods back home instead of the best the world could offer. Our hard earned money is wasted on worthless 'assets'.

Opposing free trade is like barring all itinerant traders from entering your locality, town or village. When a trader with his pushcart of wares enters my locality gate, he does so with goods he expects the people will want. When they do, he leaves the goods behind and departs with their money. Both parties gain. He gets his profit, and the buyer gets the goods—which he values at least as much as the money he parted with. Opposing free trade is like stopping the vegetable vendor from entering your colony gates, or charging him a duty at that point. Ultimately, you lose.

Putting manufacture before trade also amounts to putting the cart before the horse. The manufacture of anything requires the getting together, in one geographical location, of raw materials and semi-finished components from every corner of the globe. Trade makes manufacture possible—the trade in raw materials and semi-finished products.

Further, traders provide markets for manufacturers. Traders opened up the world's markets to Britain—and this made her industrialize. 'Industrialization' does not occur if you cut the economy off from world trade, and get the state to build a few large factories. Traders create markets for industrialists. Trade creates the need for products —after which local manufacture automatically begins.

Trade Promotes Manufacture

Take a small example: the laundromat. It is a facility that is available in every developed city, where one can wash and dry one's clothes on the payment of a small fee. However, these do not exist in any Indian metropolis. Here, there are countless *dhobis* instead, and the laundry industry is part of the large informal urban economy.

The laundromat uses two pieces of hardware: a heavy-duty washing machine and a large clothes drier. Neither of these are manufactured in 'liberalized' India, despite the fact that there is near saturation in the market for smaller domestic washing machines. While competing domestic washing machine brands jostle for position in the highly competitive Indian market place, no one is manufacturing domestic clothes driers—which would undoubtedly find users in the high humidity coastal regions and the high rainfall areas.

Had trade been open, these products would have found a market through the activities of India's energetic traders. Today, no one is making these because the market lies unproven, and the risk to locally manufacture them is huge. Just advertising costs would be immense. Trade would have created the markets that could enable local manufacture at some later date. Local manufacture follows in the footsteps of international traders. That is how you get 'industrialized'. Industrialization without trade is limited to what is 'safe' to locally produce. Since local manufacture involves massive 'lumpy' investments and considerable managerial skills, this gets limited to a few products. A few protected factories will come up to manufacture these products for the closed market. With open trade, the market would come to know of countless more products—and this would increase, not reduce, the opportunities for local manufacture.

Take the North-east. It is an 'underdeveloped' part of India. We want it to 'develop'; to be 'industrialized'. We could do what India did: close it to the world outside and prop up local manufacture. Or

we could internationalize the economy, open it up to the traders of the world, and provide them with the transport and communication systems necessary to ensure the growth of the local market. The people of the North-east would come to know of various products, and the manufacturers of these would come to know of the response of the people to their offerings. If the people are found to have a marked preference for, say, instant noodles, local manufacture might make sense to some industrialist. Further, traders work on both sides: they would find international markets for the produce of the North-east, and this process would also help reinforce industrialization. Trade implies the internationalization of an economy. This leads to development and industrialization.

One can also cite the Indian automobile industry. With liberalization, various auto majors have entered the country to finally manufacture machines that can actually be called 'cars'. These include Mercedes-Benz, which has 51 per cent control of an Indian outfit that produces the E220 for the local market. The Indian partner is the house of Tatas. Mercedes-Benz competes worldwide—with BMW, Jaguar, Aston Martin, Porsche and Rolls Royce. It would be quite willing to compete with all of them in India. Today, an Indian partner, a heavyweight industrial 'house', makes 49 per cent of the profits from local manufacture of one model from the Benz stable. But thousands of Indians who could have earned a living as dealers for Jaguar, Porsche, BMW and Rolls Royce are denied the opportunity by the exorbitant duties on fully-built imported cars. This has enormous implications for 'industrialization'.

Today these few locally manufactured cars might resort to some degree of 'indigenization': some parts may be locally manufactured. However, if trade was open, Indian manufacturers of spare parts would have had greater opportunity to study the parts used by many more automobile manufacturers and make competitive offers to manufacture these parts themselves. Free trade spreads knowledge. Trade would have increased the opportunities for Indian manufacturers of automobile parts. It would have also increased local knowledge of the latest in automobile engineering: a boon for our excellent and hard-working mechanics. A closed market reduces the possibilities of industrializing an underdeveloped country. Globalization today, unlike globalization in the 19th century, is spreading industrialization and urbanization to the periphery of the world economy, namely the

'underdeveloped' countries. The core of the world economy now lives in a 'post-industrial' age.

Two other examples can be given. A foreign cosmetic manufacturer called Oriflame began selling its products using 'direct marketing' techniques: housewives would sell them to each other. Shops did not stock Oriflame products. There was no advertising. Trade spread knowledge of the brand and now the company plans to set up local manufacture. Second: Green Giant corn. This was available in cans for Rs 75 each in Delhi. Since India does not produce sweet corn of this type, Green Giant increased in popularity without advertising. Now, the company has set up canning facilities here, and the cans sell for Rs 30 each. Amway and Tupperware also did the same thing: they used direct traders and never advertised. These traders established the market—and local manufacturing is following. Note that these direct marketing companies assume that every Indian is capable of gainful trade; Prof. Amartya Sen thinks they need 'education' from the state. State education is not 'knowledge'; it is propaganda. The people have a natural ability to trade as a gift from God. They need freedom, not education.

The neglect of trade affects not only the prospects of industrialization, it also affects the manner in which we deal with urban and rural economies. In the rural economy it is usual to call everyone an 'agriculturist'—even the 'landless labourer', This is not a very accurate occupational classification. The rural poor are forever to be seen at village fairs, selling and buying. Trade forms an important part of their lives. Any attempt to 'develop' the rural economy should focus on rural markets—and on connecting them to urban markets.

In the urban markets too, the neglect of trade has led to a neglect of the informal urban economy of hawkers and petty tradesmen. Theirs is an economy that is growing significantly faster than its formal counterpart in most of the underdeveloped world, Today, they are preyed upon by parasitic petty police and municipal functionaries: the lower apparatus of the predatory state—the *huftha* brigade. In Singapore, over 2,50,000 hawkers were removed from the modern Central Business District and resettled in special hawkers' markets around the newly-developed residential localities. They are now part of Singapore's tax-paying middle class. Trade, and the urban economy, should be areas of special focus if 'development' is to be attained.

SOUND MONEY AND 'INDIAN ECONOMICS'

Of course, we need money of high quality in order to practice free trade. The qualities of good money are free convertibility and stable value (no inflation). 'Development economics', however, has never stressed the importance of sound money. It has always harped about a 'foreign-exchange bottleneck' when arguments were made for freer trade: they said there was a 'shortage' of foreign exchange. This is the economics with which powerful 'experts' are running a rigidly controlled economy: an enormous live experiment on 900 million human guinea pigs. These experts—who are also the monopolistic suppliers of an inconvertible currency—then proceeded to tackle this imagined 'bottleneck' by using the powers vested in them. They hiked import duties to cut down imports—and the demand for foreign exchange. And they established every manner of incentive to encourage exports—to bring in foreign exchange. Deepak Lal speaks eloquently of the tragedy of this experiment.

> India matched its highly complex and bureaucratic system of import allocation with an equally complex system of export incentives. The major instrument used was an import entitlement for exporters in the form of import licenses whose premium provided the exporter with a subsidy. The effect was to create a host of new distortions in the export sector. A simple policy of export maximisation was pursued; any producer wishing to export found a government willing to grant him an import entitlement whose premium was sufficient to equalise the relatively high domestic costs and low foreign prices of his products. Since the entitlements were usually tied to the import content of exports, these schemes subsidised import-intensive exports rather than those with a high domestic value-added. The widespread practice of over-invoicing exports, coupled with different effective exchange rates for exports and imports, meant that a number of goods with a high import content were exported for a lower foreign currency return than the foreign currency costs of the imports embodied in them! India thus ended up by pursuing import substitution and export promotion without reference to economic costs, guided only by the belief that 'India should produce whatever it can and India should export whatever she produces'. The inefficiency, waste and corruption that the Indian trade control system has engendered are incalculable. But, at least for *this* Indian, it stands as a lasting and

> appalling monument to the ideas of Nurkse, Prebisch, Singer, Myrdal, Balogh, et al.[4]

This is what statism delivers, in contrast to the free market. Statist controls distort prices and incentives, causing perverse behaviour, engendering corruption and reaping huge economic losses. Lord Bauer explains why interventions by the state to promote exports or substitute imports are unnecessary:

> Neither in developed nor in underdeveloped economies is there particular merit in directing resources towards exports or import-saving activities instead of simply trying to ensure that they are deployed to contribute most to present or future output. The distinction between activities yielding or saving foreign exchange and other activities becomes material only if the national currency is overvalued in the sense that the foreign exchange earned or saved, expressed in local currency, understates the contribution of these resources to the flow of income. In the absence of an overvaluation of the exchange rate in this sense, any increase in national output makes the same contribution to available goods and services, regardless of destination. Thus, it follows that the capacity to export or to import does not set up obstacles for development distinct from those stemming from the limited capacity to produce.[5]

We are poor because of our 'limited capacity to produce'. Our shoddy infrastructure limits us. Not an imagined shortage of foreign exchange for which the state has to make special export incentives and restrict imports, which limit our ability to trade. These incentives to exporters are just another racket, handed over to one ministry to run: a simple, straightforward spoils system. This actually diverts public money from where it is sorely needed: the infrastructure.

Lord Bauer is, of course, speaking on the assumption that there is a single, monopolistic state issuing local currency. Even in this case, it is seen, there is no foreign exchange bottleneck nor any need for policies designed to curtail imports and promote exports. In a free-market money issue situation, however, the reality is that there is no relevance of statistics like the balance of payments or the balance of

[4]Lal, D., *The Poverty of 'Development Economics'*, 2nd edition, Institute of Economic Affairs, London, 1997, p. 31.

[5]Bauer, P.T., *The Development Frontier: Essays in Applied Economics,* Harvester Wheatsheaf, London, 1991, p. 150.

trade—since transactions will be taking place in different competing currencies. These statistics are only necessary to those governments which wish to 'manage' their monopolistic currencies. (Indeed, I am informed that Hong Kong had a governor who did not allow these statistics to be collected, fearing they would be used for some mischievous purpose some day.)

With free money issue, national governments will have little more to do other than to provide systems of contract enforcement, law enforcement, public order and public goods. Free trade and free money will allocate resources. Free money will allow free trade because it will be fully convertible at all times. Thus, all notes will be based on a real asset and freely convertible into that asset on demand. Thus, when you earn money in Currency X and buy something priced in Currency Y (which today happens only in international trade), all you do is convert one asset into another. You give up your notes convertible into, say, gold, and buy a Ferrari priced in a currency convertible into, say, barrels of crude oil. Free trade requires convertible currencies. We discuss free money in detail in another essay.

EMPLOYMENT GENERATION BY THE STATE

Let us proceed to a great obsession of 'development economics'—employment—and see the fallacies in thinking which justify state action in order to promote employment. These ideas stress that the free market would not provide gainful employment to all and that state intervention is required for the purpose. Consider the first fallacy —or is it a deliberate untruth?—of this economics: the notion that employment can somehow be 'generated' if the state spends money in the countryside.

At the outset, the reader can contemplate the question from the angle of the taxpayer: whether the taxpayer spent his money himself, or the state spent it for him, would not the same amount of employment occur? Even if taxpayers were to save their money with private banks, and these banks made sound commercial loans with their deposits, the same amount of employment would result. So what is the state doing here?

Just wasting money. And destroying value. For the state is not only spending taxpayers' money, ostensibly generating employment,

it is also funding these programmes by resorting to deficits: i.e. the printing press. In the well-governed world, broke states borrow money; here they mainly print money. These deficits cause inflation which ultimately tax the poor—the 'inflation tax'. Further, the state is forcing public sector banks to lend to 'priority' areas in the countryside—which do not amount to 'good' loans. In a free market, the private banker plays a crucial role in identifying creditworthiness. State-owned banks following centralized, politically-determined lending guidelines do not lend money to creditworthy people—they destroy our savings. Recovery rates being poor, the wealth of society is simply frittered away, along with the base value of its paper currency. Notice how money that could have gone into the transport infrastructure, preventive health, sanitation and human resource development is being diverted to finance the politics of spoils: all these 'schemes' are statally administered in the absence of sound institutions of local government.

The critical point to note is that economics is about real goods and services. When *real* goods and services—pumpkins, potatoes, pizzas...—change hands there is 'employment': *real* employment. Politicians cannot 'generate' employment. Hard work towards satisfying real demand generates employment. Politicians tax us; then they spend tax money. How can they generate employment? Of course, they can print money too. But this strategy merely causes inflation—the value of money goes down. It does not generate employment. If we are intelligent, we should ask politicians to spend tax money on what we collectively require—public goods like roads and public order including traffic regulation. This 'employment generation' we can do without. It is thievery plain and simple. Grand larceny on a grand scale.

There is no 'Surplus Labour'

Another fallacious view of unemployment was brought about by a theory of surplus labour propounded in the 1950s by Sir Arthur Lewis. According to this theory, which was widely accepted in India, the country had a pool of surplus labour. Thus, as the market grew and with it the demand for labour increased, this would not translate into an increase in the real wages of workers until the surplus was first absorbed. This theory indicated that statal intervention was

required to ensure that labour benefited from the growth process. The market by itself would not do.

Today, it has been found that the theory that countries like India have a vast pool of 'surplus labour' is completely false. When the demand for labour increases, the rates for labour are seen to immediately rise in both rural as well as urban areas. Thus, the supply curve for labour is upward sloping and not flat. You cannot indefinitely hire more and more labour at the same wage. Therefore, with the increase in economic activity fostered by the free flow of market forces, the unskilled labourer is also going to benefit. Statal intervention is not required.

THE *KHADI* FALLACY

But the greatest false notion surrounding unemployment in India is that it is caused by machines—every Congress worker wears *khadi* to show his allegiance to this myth. These *khadi*-clothed politicians have made countless 'reservations' for 'small-scale industry', designed to protect employment which would otherwise have been swallowed by the market. A very cursory glance at such a theory would reveal that if it were true that machines cause unemployment, the world would prefer to live in the Stone Age, and all of us would be gainfully employed. The fact is that machines raise productivity. Increases in productivity raise incomes. Economics is about the production of real goods and services. Machines increase overall production—which translates into increase in wealth. To understand the depth of the *khadi* fallacy, let us take an example from the textile industry from Henry Hazlitt's classic *Economics in One Lesson.*[6] Textiles is a good example because, like the Luddites, the *khadiwallahs* base their unsound theories on the experiences of this industry.

Hazlitt's example is of an overcoat manufacturer buying a machine that reduces his workforce by 50 per cent. At the outset, it may be said, without looking into the number of people employed in manufacturing the machine, that employment has been reduced. The 'one lesson' that Hazlitt sought to impart to all economists through this book is the need to look at *long-term consequences.* If we look at the long term, the true effects of the introduction of this machine are appreciated.

[6]Crown, New York, 1946.

The machine improves productivity and reduces costs. This increases the competitiveness of the overcoat manufacturer who first introduced the machine. Other manufacturers may be forced to follow suit, ensuring further growth of employment in the machine manufacturing industry. The reduction in costs will ultimately translate into gains for the consumer, who now gets his overcoat that much cheaper. That may prompt consumers to buy more overcoats—increasing employment—or divert their savings on overcoats to expenditure on other consumer goods, leading to increased employment in these sectors.

In a few years, for the original manufacturer who installed the machine, the device 'pays for itself'. That is, in a few years, this manufacturer finds that the gains from using the machine have paid for the costs of installing that piece of equipment. This is important to note. Machines are economical. They pay for themselves by increasing profits. Thereafter, the manufacturer is free to invest his additional profits as he wishes, either expanding output in this line of business, or in other businesses, or in consumption: all these activities add to employment. In all, the total sum of goods and services produced in the area increase, adding to national wealth—and employment. The workers originally displaced from the factory of the first overcoat manufacturer would have been absorbed elsewhere in the expanding economy.

The *khadi* fallacy is older than Gandhi in economic history. In England, after the introduction of the spinning jenny, a group called the Luddites went about systematically destroying spinning and weaving machines in the mistaken belief that these machines would deprive them of their livelihood. As Hazlitt reports, a parliamentary inquiry into employment in spinning and weaving conducted 25 years after the introduction of the jenny found that employment in these industries had grown by 4400 per cent. Automobiles provide another example: although this industry has seen widespread 'automation', production and employment have both increased rapidly. There are more cars available—more wealth produced for the community—as well as more jobs. These cars are also better and cheaper.

Gandhi himself was unsure of the results when he contemplated the effects of the machine. In *Young India,* 13 November 1924, he attacked machinery: 'Helps a few to ride on the backs of millions'.

He warned that 'the machine should not tend to make atrophied the limbs of man.' But he made an 'intelligent exception' of the Singer Sewing Machine—because it had 'love at its back'. Mr Singer saw his wife labouring over her stitching and invented the device to save her trouble. Gandhi approved! One could, of course, comment that sewing machines would cause unemployment amongst tailors and seamstresses!

Twenty-two years later, Gandhi was still confused over the question of technology, boon or bane, but was completely honest about his confusion. In *Community Service News,* September-October 1946, he wrote:

> As a moderately intelligent man I know man cannot live without industry. Therefore I cannot be opposed to industrialization. But I have great concern about introducing machine industry. The machine produces too much too fast, and brings with it a sort of economic system which I cannot grasp.

Gandhi was not alone in failing to 'grasp' the implications of machine industry in 'underdeveloped' and 'overpopulated' regions of the world —especially those alleged to have 'surplus labour': The Nobel Prize winning economist, Gunnar Myrdal is also on record stating in 1970, a few years before he won the coveted prize, that machines should not be introduced into Third World countries because they 'decrease the demand for labour'.[7] We should ponder, at this stage, when a neighbouring country like Malaysia has geared itself up to be 'fully developed' by the year 2020, whether in India we need active statal intervention in capital goods and labour markets to ensure that machine industry is not encouraged. A perverse thought!

A little joke is sometimes told about this fallacy. Two people were watching a huge earthmover at work. Said one: If it were not for this machine, a hundred of us could have done this work with spades. Replied the other: Or a million with spoons.

Rabindranath Tagore was not a victim of this fallacy, and clearly saw something wrong in Gandhi's edict commanding all the faithful to spin yarn and weave their own cloth. Tagore did not see *khadi* being able to cause either progress or prosperity:

[7]Myrdal, G., *The Challenge of World Poverty,* Pantheon Books, New York, 1970, pp. 400-1 and *passim:* as cited in Hazlitt, op. cit.

> The Mahatma has won the heart of India with his love; for that we have all acknowledged his sovereignty. He has given us a vision of the shakti of truth; for that our gratitude to him is unbounded.... From our master, the Mahatma—may our devotion to him never grow less!—we must learn the truth of love in all its purity, but the science and art of building up *swaraj* is a vast subject. Its pathways are difficult to traverse and take time.... For it, the economist must think, the mechanic must labour, the educationist and statesman must teach and contrive. In a word, the mind of the country must exert itself in all directions.... But his (the Mahatma's) call came to one narrow field alone. To one and all he simply says: Spin and weave, spin and weave. Is this the call: 'Let all seekers after truth come from all sides'? Is this the call of the New Age to new creation? When nature called to the bee to take refuge in the narrow life of the hive, millions of bees responded to it for the sake of efficiency, and accepted the loss of sex in consequence. But this sacrifice by way of self-atrophy led to the opposite of freedom. Any country, the people of which can agree to become neuters for the sake of some temptation, or command, carries within itself its own prison-house. To spin is easy, therefore for all men it is an imposition hard to bear. The call to the ease of mere efficiency is well enough for the Bee. The wealth of power that is Man's can only become manifest when the utmost is claimed.[8]

NOTHING 'UNIQUE' ABOUT US

'Development economics' is not about particularly unique economies in which different economic rules and processes apply. Rather, it is the application of the orthodox laws of economics to the study of the conditions of underdeveloped countries. Free marketeers challenge the 'uniqueness' claimed by 'Indian economics' for the conditions in which the economy finds itself in. The contention that we, the underdeveloped, are 'unique' actually implies that we are 'abnormal'. Normal people are 'economic'. They are capable of responding responsibly to the price signals of a market. These normal people are supposed to have the entrepreneurial abilities that a successful market economy requires. When 'development economics' denied the fact that citizens of developing countries have these abilities—

[8]Tagore, R., 'The Call of Truth', *Modern Review* 30(4), 1921, pp. 429-32, as cited in S. Hay (ed.), *Sources of Indian Tradition*, 2nd edition, Vol. 2, Penguin, New Delhi, 1991, pp. 283–4.

what Lord Bauer calls 'The Denial of the Economic Principle'—it assumed that we were abnormal. We could not be trusted with economic freedom. Planners were required to take rational decisions on our behalf. Hayek called this the 'fatal conceit' of socialism. Prof. Amartya Sen is speaking this very language of scorn when he says that the majority of Indians and Pakistanis will be unable to gainfully engage themselves in the globalized world economy. They will be outcompeted. They need the state to inject some 'knowledge' into them.[9]

Is the state a lamp of learning? Are our people stupid? Is state education knowledge, or is it just propaganda?

Free marketeers and statists were locked in a goalless draw in 1974, when the Nobel Prize for Economics was divided between both camps: Friedrich August von Hayek, philosopher of economic freedom, shared the coveted prize with the high priest of statal intervention, Gunnar Myrdal.

Over the years, the works of Lord Peter Bauer, who began his inquiries into the developmental process in the 1950s, have acquired a large following. His commonsensical approach stressing freedom, trade and commercial contacts between nations has been found to disprove all the theorists of 'development economics' who argued for statal intervention. Subsequently, Deepak Lal published *The Poverty of 'Development Economics'*. This is now in its second edition —and it proves how development economics has only multiplied the poverty which it sought to alleviate.

Development economics today is a subject that stands totally disproved. Cato Institute has just published a volume called *The Revolution in Development Economics* dedicated to Lord Bauer. It has an interesting article talking of the relationship between economic freedom and economic development: the most free are the most developed. India is ranked 118 in the index of freedom. We are 'mostly unfree'. There is also another article calling for the closure of the World Bank and the IMF: 'Architects of failed policy'. These institutions spread wrong notions on development and finance statist schemes of regimes that cause poverty.

The award of the 1974 Nobel Prize must be reassessed at a time when both recipients are dead. Hayek's 'The Fatal Conceit: The

[9]Press statements.

Errors of Socialism'[10] must be refuted or upheld. Socialist development economics was even more conceited than western or Soviet socialism. It assumed the ordinary people of underdeveloped countries to be without economic ability and postulated that a powerful 'intellectual-moral elite' (planners) was required to take decisions for them. This is the height of conceit. We have already proved the state to be 'irrational'—even 'predatory'. What claims to legitimacy can these members of our 'intellectual-moral elite' make now?

The goalless draw of 1974 gave legitimacy and credibility to both camps. Today, the time has come for a penalty shoot out. The revolution in development economics has tremendous implications—for it can garner the political and economic efforts of the world's poorest areas to create global prosperity and global freedom. It will also imply that the world will jettison an entire body of 'knowledge' as rubbish. While policies of states must naturally change, school and college curricula must be immediately reviewed—so that people who study receive real knowledge, not some substitute.

The death of 'development economics' also means the death of 'Indian Economics' as a separate subject. Let India adopt economics —a science without nationality; a science that knows no borders; a science about a unique human attribute that causes prosperity, progress and peace and thrives best under the conditions of freedom.

When I began to think along these lines I was deeply inspired by these words of Mancur Olson:

> Another myth that generates a lot of poverty and suffering is that the economic development of the poor countries is, for fundamental economic or extra-institutional reasons, extremely difficult, and requires special promotion, planning, and effort. It is sometimes even argued that a tough dictator or totalitarian repression is required to force the sacrifices needed to bring about economic development. As I see it, in these days it takes an enormous amount of stupid policies to prevent economic development. Unfortunately, growth-retarding regimes, policies and institutions are the rule rather than the exception, and the majority of the world's population lives in poverty.... The poorest of the developing

[10]Hayek, F. A., in *The Collected Works of F.A. Hayek,* Vol. 1, University of Chicago Press, 1988.

> countries can telescope the cumulative technological progress of a few centuries into a few decades.[11]

'Development' is not difficult; it will happen on its own if there is freedom. We will catch up with the rest of the world. We will become 'developed'. If only development economists would simply let us be! We have tried their expertise. Let us now try the natural order of liberty.

[11]Olson, M., *The Rise and Decline of Nations,* Yale University Press, New Haven, 1982, pp. 175-6.

4. IMPERIALISM!

—or How it was better than socialism

This place ain't big enough for red and white
This place ain't big enough for stars and stripes
This place is theirs
By their birthright
—Anderson, Bruford, Wakeman, Howe

The most popular argument against market forces is that they will bring in a new imperialism in which we will be as badly exploited as we were during the long period of British plunder. This argument also believes that this historical plunder is one of the reasons behind our current poverty and 'de-industrialization'.

All *swadeshi* jingoism is based on this notion: that free economic relations with foreigners are economically harmful. Self-reliance makes more sense, apparently. This, of course, is pure xenophobia. Self-reliance is economic suicide pure and simple. We can, each of us, be either 'economic' or 'self-reliant'. If we choose to be self-reliant, we will have to do all our chores and produce for all our needs—and this would not be 'economic'. We would be opting out of the market process and thereby doing a lot of things which would cost us time that could have been more gainfully employed. We could, by participating in the market and thereby being 'economic', earn the most with our time and use the proceeds to obtain goods and services that we need which other people produce. *Self-reliance is not economics. It is economic suicide.*

Swadeshi jingoism is based on the notion that our 'long' period of

colonial exploitation is a reason for our persistent poverty. Colonialism is the natural consequence of free economic relations; it leads to exploitation and plunder, hence we have to be self-sufficient, so goes their argument.

At the outset let us note that there are many former colonies now counted amongst the world's richest countries—like the United States of America, Australia, New Zealand and Canada. Closer home are Hong Kong and Singapore. In the case of Hong Kong, newly emerged from the shadows of colonialism, and deprived of democratic institutions, the colony reports a higher per capita income than the imperial master! Clearly then, the relationship between colonialism and poverty has to be more carefully examined. Then there are the nearby cases of Burma and Thailand. Burma was surely more prosperous as a colony than under its military junta. And Thailand, which is still poor, was never a colony! Our own period of 'colonialism' was not that long: the Company ruled parts of India till 1857—exactly one century from the Battle of Plassey which gave it Bengal—and the Crown ruled much of India, in association with over 500 local rulers, from 1857–1947: just 90 years. Socialism, with its 'self-reliance' and its xenophobic fear of 'neo-imperialism' has ruled India for 50 years already. Is the closed economy better than an open one? Will openness bring back colonial exploitation, overlordship and plunder? Or will we significantly gain from open economic relations across all borders: the globalization of the world economy?

TWO VIEWS OF HISTORY

The 'de-industrialization' thesis states that India was a rich country manufacturing various goods for the local market and for exports—especially textiles—and that these 'industries' were badly hit by the effects of colonial rule. The imperial centre made the colony an exporter of raw materials and an importer of finished goods, thereby restricting 'industrialization' to the centre of the empire and reducing the periphery to the status of an underdeveloped, largely agrarian economy. It is to compensate for this long period of de-industrialization that the independent Indian state took up the case of 'heavy industrialization' in earnest—under its ownership. This compelling thesis, which formed the backbone of much nationalist propaganda

during the freedom struggle, does not account for the Tata steel mill in Jamshedpur, which came up in British times, or, for that matter, the hundreds of textile and jute mills that existed in India, under Indian ownership, when the country first tasted independence. To look into the details of these allegations, we need to balance our inquiry with a study of imperialism from the point of view of the colonial masters—for the explanations advanced by theoreticians of the subject populace seem to be wanting. Fortunately, such a study is available and it shows up startling facts. These need to be widely studied today, for without a clear understanding of how world market forces have worked historically, India will be unable to step into the future of globalization with any degree of certainty.

In 1979, the Cambridge historian B.R. Tomlinson published *The Political Economy of the Raj (1914–1947): The Economics of Decolonization in India,*[1] which sought to look at imperial economic historiography from the point of view of the imperial centre, seeking a 'bridge' with historians in the 'overactive periphery'. Such a bridge does not seem to have come about yet.

In the view of the imperial centre, imperialism was, in the main, 'a political function of the process of integrating new regions into the expanding economy'. What happened in India, seen from this angle, is that it was a backward region that was quickly 'integrated' into an expanding economy—which soon became the world's first 'industrial' economy.

Note that this is precisely what free marketeers recommend today: that India be quickly integrated with the forces of the global economic market. It is here that we are warned of 'neo-imperialism'. Hence, it becomes all the more necessary to inquire into what exactly happened in colonial times, when we were open to global market forces. *Our* economists say we were 'de-industrialized'. What do *their* historians reveal?

Tomlinson begins by noting that the picture of India's role in the imperial economy, as an exporter of raw materials, industrial inputs and foodstuffs and an importer of cotton textiles, metal manufactures and engineering products is 'over-simplified':

> India exported manufactured goods as well as raw materials. Jute cloth and gunny bags, and cotton twist, yarn and piece-goods featured

[1]Macmillan, London, 1979.

> prominently in her list of exports; in jute manufactures she was the world's most important consumer and producer in 1913, in cotton yarn she was second only to Britain as a supplier of total world trade. Of her imports, gold and silver bullion represented an important percentage—23% in 1913—of her trade with the industrialized world. A large segment of India's foreign trade was carried out with other non-European economies, especially those of South-East Asia. The largest items in this were exports of raw cotton to Japan, of cotton yarn to China, and of jute manufactures and rice to the whole area. In return, India imported raw and manufactured silk from China and Hong Kong and sugar from Java and Mauritius.[2]

In seeking to probe the depths of standard Indian economic historiography, the first point to note is that the picture painted of colonial India as a primary exporter and finished-goods importer is indeed seriously 'over-simplified'. Let us inquire whether India, during laissez-faire British rule, was industrializing or really de-industrializing. Once again, the evidence unearthed from the centre of the empire yields surprising new conclusions.

THE LAISSEZ-FAIRE EXPERIENCE

According to Tomlinson, Britain practised laissez-faire—giving free rein to market forces—till 1914. WW1 brought in statal intervention; the inter-war years and the Great Depression of the 1930s only served to increase official intervention; then WW2 caused intervention to reach its peak. Thus, it was a hugely interventionist state that the Indian National Congress took over from Imperial Britain.

We will, therefore, inquire specifically into the situation that prevailed up to the end of laissez-faire: 1914 being the cut-off date. We find that as far as cotton piece-goods imports from Britain are concerned:

> The year 1913 has been regarded as the great climacteric of British cotton trade with India, the only time that British exports of piece-goods exceeded 3000 million yards. *In fact, it was clear even at that time that the Indian market was in danger, for Lancashire's sales of*

[2]Ibid., p. 1.

> *coarse quality grey goods were suffering heavily from the competition of domestic producers.*[3]

To find out how 'domestic producers' had come up to challenge the might of Lancashire without any help from any state, we need only to look into the details of India's imports of engineering goods:

> India's importance as a market for British engineering products varied from category to category. Her share of British overseas sales of agricultural machinery, machine tools, motor cars, sewing machines and electrical wires and cables was small, but in 1911–1913 she was the largest single customer for British exports of textile machinery, boilers, prime movers, locomotives and miscellaneous machinery, and the third largest purchaser of electrical machinery. The Indian market for textile machinery ... accounted for nearly a quarter of the value of total British exports of general engineering products in 1913.[4]

This is quite an amazing fact. At about the time Gandhi began asking the people of India to spin and weave and thereby promote employment, and Congressmen nationwide were burning foreign cloth, India was the largest customer for British textile *machinery*! And also boilers, prime movers, locomotives, etc. This is the picture at the precise end of British laissez-faire. From this, how do we judge standard Indian economic historiography?

This picture continues into 1936, but we can say that a modest amount of state intervention contributed to these results:

> Cotton-piece goods, which still contributed almost a quarter of the value of total imports in 1920, had declined to only 10% in 1936 and had been overtaken by machinery and millwork as the country's largest single class of imports.[5]

From Tomlinson's data, a table can be drawn showing India's import profile during the years between the wars. The figures are percentages.

[3]Tomlinson, op. cit., p. 2 (emphasis added).
[4]Ibid., p. 3.
[5]Ibid., pp. 30-1.

IMPORT PROFILE OF INDIA

(percentages)

Years	*Consumer Goods* *(Food, drink, tobacco, apparel, cutlery, paper, textiles and vehicles)*	*Raw Materials* *(Hides and skins, rubber, cotton, silk, wool, hemp, timber, resin, gums, oils, dyes and textile yarns)*	*Capital Goods* *(Electrical instruments, machinery and millwork, printing machinery, railway plant and rolling stock, metal manufactures, hardware)*
1925–26	54	15.6	23.2
1931–32	51.6	23.4	21.7
1935–36	48.9	23.8	26.1
1938–39	33.0	28.4	25.9

From these figures, Tomlinson reaches the conclusion that:

> ... by the 1930s ... India was transforming her relationship with the international economy by import-substitution in consumer goods, drawing more heavily instead on outside supplies of raw materials and. capital goods.[6]

These post-1914 figures represent the effects of a small amount of state intervention to promote local manufacture, but we have seen that the trend for the free market to promote local manufacturing had set in. However, to judge the effects of laissez-faire, the 1919 Report of the British Trade Commissioner is most relevant. Speaking of British businesses in India, he noted:

> ... the large Clive Street merchants are almost exclusively devoted to the management of jute mills and other *industrial* works, to the handling of shipping and insurance agencies, and to the shipment of Indian produce and manufactures.... The large engineering firms are also now so interested in managing local engineering works that they cannot be expected to pay the same attention to the interests of those United Kingdom engineers they represent, and *in certain cases their manufacturing and their distributing interests clash.*[7]

[6]Ibid., p. 31.

[7]Ibid., p. 51, citing *Report on the Condition and Prospects of British Trade in India,* 1919, p. 19 (emphasis added).

This shows that merchants end up becoming industrialists—that free trade leads to industrialization; that closing down the trading economy to promote 'import-substitution industrialization' is sheer stupidity. The Clive Street merchants began by selling imported goods. Once the markets developed, and sufficient demand was generated, they invested in local manufacture. Thereby, they saved the costs of transportation and increased their margins. The increased margins, of course, attracted other manufacturers, and the entire process of industrialization began, through the free market, in Bengal. Then, and this is by 1919, these merchants, who were now local manufacturers, found their manufacturing and distributing interests 'clashing'. They preferred to hawk their own manufactures than sell those produced by their principals in Britain. So much for colonialism as being a political way to promote the sales of the products of the imperial master. The free market simply did not allow that.

Competition during Laissez-faire

It must be emphasized that the laissez-faire economy was open to countries other than Britain. The open economy of the colony was one in which the British had to actively compete with the best the rest of the world had to offer. Indian buyers, on balance, were assured of a good deal:

> Before 1914 German export firms had used their assured profits in the hides and skins trade, brought about by a successful ring in this commodity, to extend favourable credit terms to purchasers of German imports; during the First World War the Japanese used the network of contacts built up in exporting raw cotton as the basis for the supply of manufactured cotton imports, while American engineering firms, prospering as a result of technical collaboration agreements with the Tata Iron and Steel Company, dominated the market for public utility enterprises.[8]

The question then arises that, if India was indeed 'industrializing', was most of this confined to British businessmen? And further, what

[8]Ibid., p. 51, citing *Report on the Condition and Prospects of British Trade in India,* 1919, pp. 10-18, 43-4.

was the attitude of the British-run Government of India towards them?

Tomlinson reveals that the expatriate business community was 'conservative' when new industrial opportunities came their way, and that most of these areas were cornered by Indian entrepreneurs: 'particularly cement, sugar and paper, but also chemicals, paints and electrical goods'.[9] Indian groups were expanding faster than their expatriate rivals.

Most expatriate businessmen also found 'they had more in common with their Indian counterparts than they had with the British bureaucracy'. Many British interests—tea, mill owners and the Governors of the Imperial Bank—joined Indian businessmen in pressing for a lower rate for the rupee. Tomlinson has extricated a letter written by Sir James Grigg, Finance Member of Government of India at that time, which reveals a great deal about British minds in business and administration. (Finance Member would be equivalent to Finance Minister today.)

> [The attitude of expatriate businessmen] ... is now frankly that of making friends with the mammon of unrighteousness, e.g. Birla and Benthall hunt together for quick profits and the latter does not see that he is thereby weakening his own ultimate safeguard (viz. British power) and that he, or rather his competitors and successors, will be swallowed up completely. But perhaps he does see this and doesn't care so long as he himself has got out with his swag. Personally I wouldn't mind if every British businessman in India disappeared tomorrow.... [10]

The picture that emerges from reading Tomlinson differs greatly from the picture painted of imperialism in popular Indian memory—the utterances of public figures, the paranoid writings of nationalist economists, or the shallow learning of the economics of imperialism in schools and colleges all over India.

We see, quite clearly and in direct contrast to histories of colonial exploitation and plunder, that India was 'industrializing'; that much of this was being done by Indian entrepreneurs; that a great deal of foreign capital was moving into infrastructure such as railways; that

[9]Ibid., p. 52.

[10]Ibid., p. 53, citing P.J. Grigg to H.V. Hodson, 24.1.39, in Grigg Papers file 2/1 1.

British businessmen were businessmen pure and simple, and not agents of the state; that they competed with other major overseas interests—like the Germans, the Japanese and the Americans; and that government of India was not run in a manner that solely served British interests, at least in matters economic.

Returning again to the period of laissez-faire, we see that by 1913:

> ... the pattern of British capital export to India was similar to the norm. British investors and British businessmen who had links with India put their money into generating social overheads, creating transport networks and lubricating the cogs of Indian enterprise that meshed with the world economy.[11]

It is only this that advocates of laissez-faire are asking for today. Let us invest hugely in 'generating social overheads, creating transport networks and lubricating the cogs of the Indian economy that mesh with that of the world'. The free market will do the rest. The Indian economy, it seems, had gone along exactly on this course till 1914—then things changed, for a very long time. India's open interaction with the free winds of the world's economic forces did not lead to destitution and plunder: it brought trade, industry, prosperity, modernization, urbanization and development. Modern day development economics, with all its dirigisme, has got the wrong end of the stick. Behind this is an erroneous view of economic history.

BENGAL AND THE COMPANY

Let us now go back even further in time, to the period when the British East India Company first set up shop in Calcutta. What were conditions in Bengal at that time? How was business conducted? How did the British conduct business? And how did they make their fortunes? Was this really 'loot'? If businessmen from all over the world were left free to trade here, will wealth be 'looted' or created?

Note that before Plassey, Bengal was a very rich province. In Mughal documents, she was conventionally referred to as 'the paradise of the earth.' The French traveller Bernier wrote of 'well peopled

[11]Ibid., pp. 4-5.

villages and boroughs', and thought Bengal even more fruitful than Egypt. A Scot who served there, A. Dow, described it as one of 'the richest, most populous and best cultivated kingdoms of the world.'[12] Bengal was a great trading post, and, even before the British came, a great proportion of Asian trade was carried through Bengal's ports. It is this seaborne trade that attracted British, French, Dutch and Portuguese attention. These were all seafaring nations, proud of their ships and their sailors. At sea, they were in their element. They were naturally attracted to a place where a great deal of seaborne trade was being conducted. Their ships also competed to carry the cargoes of Asian merchants.

Today Bengal, on both sides of the border, is famous for its poverty. *City of Joy* shows the horror of extreme poverty in what was once the 'City of Palaces.' Independent Bangladesh is an international basket case. What is the cause of this poverty? Will internationalizing the Bengal economy cure this poverty or will new colonial masters emerge?

What was the East India Company and who were its officials? Young 'gentlemen' of sound education were appointed as 'Writers' into a covenanted service where seniority counted most. The word 'gentlemen' needs to be stressed, for the qualities in which the Indian Civil Service would later take pride were already well-defined in the 18th century. These jobs as Writers were hard to get and connections mattered. But the writers were not here in India as social servants or administrators. These were people who had come here to make their fortunes. Their forefathers had usually done likewise and these young men held fast to dreams of a prosperous retirement—a town house in London and a country mansion to boot. The Company held them in close check: a security deposit was taken from each official, including the Governor!

These 'gentlemen' of the East India Company were 'merchants'. They were not soldiers in search of conquest. Certainly in Calcutta they considered themselves, in the early days before Plassey, as nothing more than a community of merchants, going about their business of generating prosperity for their Company, for themselves and for their

[12]Marshall, P.J., *East Indian Fortunes: The British in Bengal in the Eighteenth Century,* Oxford University Press, 1976, p. 6, citing 'Mr F. Bernier's Voyage to Surat', in *A Collection of Voyages and Travels* (1745), ii, pp. 240-1 and A. Dow, *The History of Hindostan* (1768-72), iii, p. lxviii.

settlement. The East India Company was 'a working association between a monopoly corporation and various forms of free enterprise'.[13] One form of free enterprise was carried out by the Company's own officials, who were free to participate in Bengal's internal trade, and in general enrich themselves by all legitimate means that did not hurt the Company's monopoly interests. The right to trade within limits laid down by the Company 'without any lett, hindrance or interruption' was included in a Writer's covenant. As Edmund Burke wrote, they were expected to return home 'rich and innocent'.

As early as 1667, in order to 'encourage persons to undertake and proceed cheerfully in the management of the Company's affairs', Company servants were permitted to trade in Asia in all commodities except pepper and calicoes. In 1717, the Directors of the Company wrote to Fort St George (Madras): 'We shall always be glad when trade flourishes in India, as well as the opportunity it affords our servants to get estates *honestly*, as that our own settlements are bettered thereby.' They were encouraged to make their settlement 'a mart for nations... That being the means by which God Almighty of old promised to make Jerusalem great.' Hence, the building of Indian cities, including Calcutta. It is extremely tragic that this particular aspect of the covenanted servants of the Company, from which the ICS and the IAS have both descended, has been lost. Free India is an urban disaster zone. We read of people like Sir Stuart Hogg—who built Calcutta's New Market—but never see such city administrators around any more. The difference is because they were working towards prosperity; these are just going about alleviating poverty, least concerned and least aware of how prosperity occurs.

There were, of course, British people in Bengal outside the Company's 'covenanted service'. Many could not get the coveted job of Writer, but still had dreams of making fortunes here. They were the 'Free Merchants'. The Company could have evicted them, but peaceful co-existence prevailed. In the 1660s it was decided to allow such men 'to live peaceably and quietly without disturbance or discouragement'. There were also licensed Free Mariners: freelance

[13]Marshall, P.J., op. cit., citing V.T. Harlow (1952–64), *The Founding of the Second British Empire 1763–93*, ii, p. 488.

sailors who looked for assignments on trading ships. They were in great demand because they were seen to be better than Asian talent. By licensing Free Merchants and Free Mariners, the Directors hoped to contribute to the 'increase of our settlements and of the country trade'.

It is an amazing fact that within a short span of time, those spheres previously reserved to the monopoly corporation—the East India Company—would be successfully invaded and after 1833 the Company would cease to exist as a trading body, finally ceding victory to 'free enterprise'. Thereafter, the great story of modern India began —only to be brutally strangled by socialism.

Now we have another monopoly corporation, the Government of India, which co-exists with various forms of private enterprise. Its servants operate monopolies of power, petroleum, telecom and infrastructure—and engage in a wide variety of businesses—with public money. When they do this, they reap huge benefits for themselves but cause huge economic losses to the nation. Are they better than the Company's Writers?

TRADE BY COMPANY SERVANTS

How did Company servants trade? To answer that we have to look at trading conditions in Bengal. Bengal merchants worked in precarious conditions. For their purchases they had to fork out advances—and this made trade a capital-intensive affair. Whatever be the trade—salt, opium or cloth—they had to pay advances well in time to ensure supply. The Company's servants rarely had the kind of money to finance such trade on their own. In 1717, the Mughal Emperor granted the Company a *firman* which allowed the Company and its officials to trade within India without paying any duties. This was the first big break for the Company's officers. It was also a big break for Bengal's merchant community.

Many Indian merchants became 'banians' to Company officers. Even Warren Hastings had a banian—the famous Cantu Babu. This unique economic relationship between a local merchant and a foreign one with an imperial privilege has not been much talked about. The partnership was based on a simple idea. As one Englishman put it: it was to 'borrow a name and cheat the government of their dutys'. The

banian would finance and carry out the trade in the officer's name, and share the profits. 'In one case of trading ventures in Oudh the banian provided the stock and managed the concern; 'in consideration of the advantages to be derived from the use of the name and influence' of his master, he agreed to make over half the profits to him after deducting 12 per cent interest.'[14] This was by no means a master-slave relationship. Marshall avers that they were more like 'trading partners'. Thus, British trade 'depended on Indian skill and Indian capital'.[15]

The fact is that after Plassey, Bengal was not to the British what Mexico was to the *conquistadores*. There was a long history of trade. British ships carried cargoes entrusted to them by Asian merchants. The settlement of Calcutta saw great expansion when eminent notables from the Nawab's capital, Murshidabad, shifted to Calcutta—not by force, but by virtue of the better security given to property rights there: property rights safeguarded not by a state, but by a private company! The claims of 'loot' and 'the drain of Bengal' are highly exaggerated, and these 'histories' need urgent review. Marshall delicately suggests that the material in his book 'prompts some tentative reconsideration' of both ideas—viz. that the British brought about the 'ruin of Bengal' and that they 'drained Bengal's wealth'.[16] He adds that 'attempts to substantiate allegations that private trade drove Indian merchants out of business and impoverished the artisans and cultivators ... are equally hampered by ignorance of basic facts about Bengal's economy'.[17]

The British made money, yes. The Indian Civil Service would later conclude that their predecessors, the Writers of the Company, were 'corrupt', but these merchants were here to trade and profit and earn their estates. Their illegal ways of making money consisted essentially of exploiting the Mughal laws—like the *farman*, or by selling *dastaks*: which were permissions to trade. They also learned the art of accepting presents for political favours—a practice which woefuly continues in India today and which has probably intensified

[14]Marshall, P.J., op. cit., p. 46, citing Calcutta High Court Records, Supreme Court, Equity, Hyde *vs.* Ojagur Mull.
[15]Marshall, P.J., op. cit., p. 47.
[16]Ibid., pp. 262-3.
[17]Ibid., p. 264.

a thousandfold. Marshall's history of the British in 18th century Bengal is an account of how these fortunes were actually made—and it does not in any way indicate that free trade and free immigration will lead to re-colonization. Indeed, if anything, it suggests that the internationalization of Bengal is the only way to make that area prosperous again.

Marshall concludes that at the end of the 18th century, it 'was still too early to predict whether European enterprise would galvanize the [Bengal] economy..., would stultify its development, or would remain an isolated enclave in a stagnant agrarian society'. But today we can safely conclude that, between 1800 and 1947, enterprise had indeed transformed Bengal. We can also see that 50 years of Indian planning, a closed economy, and the absence of free trade with sound money have laid waste to Bengal. This is the 'ruin of Bengal'—and indeed of the whole of India. And our politicians claim to have delivered us from the British!

Today, it can be said that there is a lot of similarity between the East India Company and the Indian socialist state: that both are 'monopoly corporations co-existing with various forms of private enterprise'. The East India Company's officials were allowed to profit from private trade; the socialist state's officials undertake business with public money: that is what state-owned enterprise is all about. The East India Company's monopoly was wiped out by free enterprise; the socialist state's monopolies must similarly go. That is the lesson from history.

Globalization today is completely different from imperialism. Neo-imperialism is something we, therefore, need not fear. Today, globalization is not using the periphery of the world economy as a supplier of raw materials and a captive market while restricting industrialization, prosperity and advancement to the core of the empire. If anything, it is quite the reverse. Today, the imperial core is facing a 'post-industrial age' while the periphery is industrializing. Today, US companies operate small offices in New York and get all manufacturing done by contracted parties in Asia. The world is not only the market; it is also the factory. Economic efficiency counts uppermost and free trade and free capital flows are causing rapid urbanization and industrialization of the outer periphery of the world economy. Thus, internationalization of the Indian economy will lead

to industrialization and genuine development. It will not cause neo-imperialism. The accounts of imperialism in our history textbooks read like Congress propaganda of the 1920s and 1930s. These must be revised in the interest of truth.

5. BORDERS!

—or How we'll be better off without them

All you deface, all you defend,
Is just a borderline,
Another borderline.
—Joni Mitchell

Mancur Olson's hypothesis—that national boundaries are the only cause of differences between rich and poor countries—forces us to look extremely sceptically at the idea of the closed nation state in a globalizing economy.[1] Although economic rationality would dictate otherwise, we live in a region of armed conflict. This conflict strengthens national boundaries instead of lowering them, as in the more rational European Union, wherein countries that have been at war since time immemorial—like France, Germany, Italy and Britain—have made national boundaries irrelevant.

Our region, most unfortunately, is very different. Armed conflicts are on the rise everywhere. As they rage, the hawks and doves vie for supremacy—the former advocating militaristic solutions, the latter talking of peace and integration into a larger free market. This essay is for the doves. May their tribe increase.

PROSPERITY REQUIRES PEACE

Economics, far from being a 'dismal science', is the science of hope; and good economists have usually understood the link between

[1]Olson, M., 'A Collective Choice Perspective on the Indian Economy', Paper presented at the IRIS Conference, New Delhi.

peace and prosperity. And they have recognized the importance of peace not only nationally, but also across borders. One of the world's earliest economists, Xenophon, in *On the Means of Improving the Revenue of the State of Athens,* laid great emphasis on the relationship between peace and prosperity. 'For those states, assuredly, are most prosperous, which have remained at peace for the longest period, and of all states Athens is best adapted by nature for flourishing during peace.' Quoting Xenophon, Galbraith notes: 'It is a seriously troubling matter that only rarely in the next twenty-four hundred years have economists addressed the economic costs of war and the economic rewards of peace and taken a strong professional stand on the choice. It is not too late.'[2]

One economist who made a telling analysis of the economic consequences of war was Frederic Bastiat, the 19th century French statesman and author whose *The Law* exploded many a 'socialist' fallacy. Henry Hazlitt's classic *Economics in One Lesson* begins with Bastiat's 'The Broken Window'. Since Hazlitt's book is now in its 50th year of publication, it is quite amazing that Professor Galbraith's *History of Economics* (1987) does not mention Bastiat's striking economic argument against war. Indeed his book does not mention Bastiat at all!

A hoodlum smashes a shop window. People gather to reflect on the consequences. They see more business for the local glazier, and hence some consequent enhancement of economic activity in their village community. They feel that they are all better off. But they do not see that the shopkeeper had intended to have a suit made for himself, the cost of which must now go towards repairing his window. Had the window not been broken, this shopkeeper would have had a window and a suit—and the community would have possessed that much more real wealth. Destruction does not add to wealth. The glazier's gain in business is but the tailor's loss of business. The community is in exactly the same position as earlier when it repairs the damage; it is not better off.

It sounds simple enough, but it is rarely understood. Many economists believe that the two World Wars actually created the post-

[2]Galbraith, J.K., *A History of Economics: The Past as the Present,* Penguin, Harmondsworth, 1987, p. 16. The quote from Xenophon is from the same page, citing A.E. Monroe (ed.), *Early Economic Thought*, Harvard University Press, Cambridge, 1924, pp. 46-7.

war economic miracles! But war can never do such a thing. Wars divert resources and destroy property. If every individual would like to see his property preserved, then surely it makes sense for a community to do the same thing.

But when it comes to war and peace, it is not economics but politics that rules. The notion that war and preparedness for war are the most important requirements of any government was perhaps most forcefully asserted by Niccolo Machiavelli, who advised his Prince: 'Have no other object or thought, nor acquire skill in anything, except war, its organization, and its discipline. The art of war is all that is expected of a ruler.'[3] Machiavelli, it has often been said, should have asked princes to pay a little attention to economic matters. Then, the Medicis may have managed their bank and the Florentine currency far better. Siachen, the uninhabitable glacier over which India and Pakistan have been fighting a war for many years, costs this country over three crore rupees per day.

When Machiavelli wrote those words, Babar was wandering around Central Asia looking for a kingdom to rule. At that moment in time, this advice from the greatest political realist of that age would have rung true. One acquired, ruled and lost kingdoms through war. Within each kingdom there might have been peace, stability and government; but outside was complete anarchy. We have come a long way since then.

John Kenneth Galbraith, taking a professional economist's stand on the matter in 1987, has stressed the need for modern-day hawks who would swear by Machiavelli to squarely face up to post-modern reality:

> To this day the intellectually more retarded military strategist looks at a frontier on a map with the assumption that some landed feudatory has designs for bursting out to appropriate the acres and revenues across the border. That to seize and operate successfully a modern, industrial economy is a more difficult task than simply to annex one's neighbor's land is a matter that has yet fully to penetrate the established military mind.[4]

[3]Machiavelli, N., *The Prince,* trans. by George Bull, Penguin, Harmondsworth, 1961, p. 87.

[4]Galbraith, J.K., *A History of Economics,* Penguin, Harmondsworth, 1987, p. 24.

Of course, our own South Asia is not yet a region of 'modern industrial economies'—but that is what we should be aiming for! About China, *The Economist* says that 'the Panda may be stronger and fiercer than its neighbours but, with luck, time and money will change it.'

Time will make China, India and Pakistan modern industrial economies—the kind that cannot be meaningfully taken over. There is a clear realization today that there are economic and military limits to international as well as domestic politics.[5] Economics dictates the need to keep borders open and friendly, since that alone keeps the whole show going. SAFTA—the South Asian Free Trade Area that is still an idea in the minds of the states in the region—is a recognition of this. Military expenditure is not as 'economical' as it once was, with conquests of rich, fertile lands full of hard-working peasants. Further, one cannot rule over a subject populace with force alone: small arms and plastic explosives have changed all the equations. Add the fact that citizens are increasingly reluctant to fight for their country. They do not want international politics becoming a reason for war: 'nothing to kill or die for, and no religion too' is a creed. This new age has already dawned in India: recruitment to the armed forces' officer corps is difficult now.[6]

But the hawks seem undeterred. As I write, a young Major of the Indian army has been brought back from Kashmir in a body bag. He and countless others died fighting 'militancy'. (At the time of going to print, we are fighting 'infiltrators' in Kargil and more soldiers and airmen are dying.) Hawks continue with the line that the 'sovereignty and territorial integrity' of the country must be fought and died for. It is seldom realized that in our region the governmental elite is unaccountable and corrupt. Further, democracy is superficial: local government does not exist; civic society has not made its presence felt. The TV serial *Picket Fences,* which showed local government in a fictional American small town, is very different from *English, August*, which shows the same about India. Here, we are beholden to and dependent upon a ruling class of elected and appointed officials. The elected personnel of the state cannot rule without so-called

[5]Dunn, J. (ed.), *The Economic Limits to Modern Politics,* Cambridge University Press, 1990.

[6]The rush witnessed during the Kargil crisis to enlist in the army was more due to poverty; the queues were for enrolling as jawans not as officers.

democracy; and appointed personnel cannot function without this democratic political sanction. So they continue to reinforce one another. Politicians let the bureaucracy alone; and bureaucrats ensure that the only thing working in the entire country is the election process—although here too money and muscle power often determine the outcome.

India, therefore, is not a republic; it is an empire. Machiavelli's Florence was a republic sometimes. During the 'Bonfire of the Vanities', it succumbed to religious fundamentalism, but it did so alone. One day it changed its mind, and burnt the man who called for the bonfire.[7] That day too it decided alone. But did the people of Ayodhya ever decide what to do with the 'disputed site'? In Punjab, when lauding 'heroes' who 'restored order', people conveniently forget the large role played by the 'Empress' in creating disorder in the first place.[8] With the extent of control exercised by party 'high commands' over states, what room is there for a mayor? Democracy without local participation is just a farce.

GIVING HAWK-TALK THE DOVE-SHOVE

So what do calls for 'protecting the unity and integrity of the nation' and safeguarding its 'sovereignty' really amount to? Just this: protect and preserve India's ruling elite, and give them the right to go against world opinion. This ideology believes in the sanctity of geographical boundaries imperfectly made by fallible humans. It sanctions the crushing of dissent.

Indirectly, this hawk-talk gives a legitimate reason to the ruling classes of other regional empires to continue to reign over all of us:

[7]A fiery Dominican preacher, Girolamo Savonarola (1452–98) dominated the Florentine republic without holding any formal position. His denunciations of corruption in both state and church made him popular and powerful. Such was his following that the annual carnival of 1497 was capped, at his urging, by a 'pyre of the vanities' in which people consigned their worldly attachments—books, jewellery, pictures—to the flames. Botticelli burned his nude studies of Simonetta, mistress of Giuliano de Medici—who was his model for 'The Birth of Venus'. But Savonarola's strict regime caused economic decline; he lost popularity; was excommunicated; and finally convicted of heresy. He ended his life in a bonfire in the same square as his 'pyre of vanities'.

[8]Tully, M. and Jacob, S., *Amritsar: Mrs Gandhi's Last Battle*, Rupa, New Delhi, 1985.

to protect us from each other! It is in this context that the recent nuclear blasts in India and Pakistan must be assessed. The very fact that India started off the nuclear exchange requires that we make some philosophical inquiries into the minds of our political masters. It appears that when Atal Behari Vajpayee was prime minister for a brief 13 days some years ago, the first thing he did was to summon India's nuclear scientists and check out whether a nuclear blast was possible. They assured him that it was, but his government, mercifully, fell.

This time around, time was on his side and the *first thing* he did was to give the command to the nuclear honchos to press ahead with a blast. Our bombs; their bombs; sanctions—the entire story then followed. My question is, in the light of 'rationality' as regards war and peace, what explains the rationale of this prime minister and his nuclear tests?

It is patently clear that this Machiavellian prime minister, in true deference to the master, 'had no other object or thought, except war'. And war is what he got. But in this instance, we can certainly say that the master delivered wrong advice. Every Prince should pay attention to economics.

In the long term, seeing the changes occurring around the globe, we can safely discount the possibility of ever being conquered by any neighbouring country. The Pakistanis might take Kashmir, and God bless them if that's what the Kashmiris want, but they cannot take New Delhi or Bangalore. To maintain a huge defence establishment mainly to ensure that the Emperor's hand is strong when dealing with dissent in peripheral areas is uneconomical: the fact is that the love of those people has never been earned (not just Kashmiris in the valley; most of the North-east looks upon Indians as foreigners). The Emperor is much hated in many parts of the empire. The jingoistic call to protect, at any cost, the 'unity and integrity' of India is, in the circumstances, nothing more than a call to shed one's blood for remote, unloved corners of a 'motherland' where one is a complete, unloved stranger. It is also an excuse for condoning excesses by zealous, uniformed patriots anxious to earn medals of the kind that sell a dollar a dozen in the former USSR. This reminds me of a T-shirt I often borrowed from a friend, which said: 'Join the Army. Travel to Wonderful Exotic Lands. Meet Wonderful Exotic People .... And Kill Them!'

THE 'PUBLIC GOOD' OF LAW, ORDER AND DEFENCE

Indeed, law, order and defence are essential public goods that the state must provide; and we are paying taxes for the supply of these public goods. But we must question what is being supplied; and when we do so we must consider the opportunity costs of these. That is, since the kitty is fixed, we are being provided a certain kind of 'law, order and defence'. And we must each ask ourselves: Is this the kind of 'law, order and defence' that I really need?

I personally believe that no Pakistani citizen is a threat to me (I do not live in Kargil); I also hold that I am not a threat to any Pakistani, or Chinese or any one else for that matter. I see that the greatest threat to my security lies in the horribly unsafe streets of India, where death lurks at every corner. The state could invest in making the roads safe. It is not doing that. It could also invest in policing—to give us internal security. But the police forces only provide security to Very Important Persons; and on behalf of these VIPs they allow political pogroms to ravage our cities.

In Delhi, after Indira Gandhi's assassination, the police stood by and allowed Congress mobs to butcher innocent Sikhs; and in Bombay, the Srikrishna Commission has clearly implicated the police in the slaughter of minorities. I do believe that instead of detonating nuclear bombs and entering into an arms race with China and Pakistan—two equally embattled statist regimes—it would be better to invest in the improvement of our police forces, in road safety, and in the general improvement of internal security. For the last, it is essential that the economics of prosperity be embraced. The market brings in prosperity. This goes a long way in controlling crime—which is directly linked to poverty. Thus, Machiavelli's advice to his Prince is completely out of tune with the realities that face an India looking ahead to a grand 21st century. Indeed, it is the nuclear ambitions of our ruling elite that constitutes a grave threat to India.

AN INTERNAL SECURITY THREAT

If there is a security threat that can be easily perceived, it is fascism. Historically, fascism has been known for its few simple methods of obtaining power: the call for a lost and glorious past; the clear identification of an 'enemy'; and a desire to return to the glorious

age by exterminating the enemy. Jews, socialists, communists, Hindus, Muslims: anyone can be the enemy. To combat fascism internationally, we should promote liberal ideas and downplay jingoism.

In India, the most dangerous jingoism emanates from the BJP and the Shiv Sena. Bal Thackeray's numerous utterances against Pakistan may be considered 'lunactic fringe' stuff, but things begin to look pretty serious when one of the leading lights of the BJP, K.R. Malkani, in an article in the *Times of India*, repeatedly asserts that everything the BJP stands for is not communal because India has been partitioned along religious lines. He adds that the mosque at Ayodhya was demolished by Pakistani *agent provocateurs*! These people believe religion to be the *raison d'etat*. They have identified the 'enemy'. Do we want to give them nuclear weapons to play with?

Living in an empire without either democratically elected local authorities or accountability mechanisms that work to keep the administration on its toes, the only serious security threats are from within: Fascism is among us; and the state does nothing to keep us secure internally. Entire villages are massacred in Bihar and Assam; *Bandit Queen* tells the story of jungle law just 500 km from Delhi; *City of Joy* exposes the urban mafia; and E*nglish, August* shows that the DM-SP combination provides quasi-military government (at best) to the districts. What we need for our security is vigorous local government and public control over a vastly improved police force dedicated more to the prevention and detection of crime than the maintenance of the Emperor's law and order. Collective security should be the watchword—police forces in every part of the city, in every village, with a great deal of local participation and control. Civilianization of many functions could be carried out.

POLICE REFORM

High-quality collective security requires radical reforms in the police system—indeed, the entire criminal justice system. There are two aspects to reform: first, what are the laws we need to enforce; and second, what kind of machinery do we set up to enforce these basic criminal laws.

Our police forces have been saddled with the implementation of a whole lot of needless laws—and have developed an interest in the continuation of these laws. Therefore, let us not have a police force

that is vested with the purpose of thrusting the state's morality down our throats. Let us have the freedom to sell sexual services, sexually explicit materials; and let us have the freedom to get high. Let us also have free trade—so there are no smugglers. Let us, in brief, create a state of freedom in which there are no incentives for breaking the law. Whatever remains—protection of life and property—is in everybody's interest. Everyone will cooperate to preserve these laws. For this purpose, a police force can be established. For more than this it is not possible, because there will be economic interests in breaking the law which will subvert the police. Let us not make the same mistake twice.

As to the kind of police force we need, let me quote from the report of the National Police Commission, from the concluding section, 'Looking Ahead':

> Of the answers to the problems that are developing, the most important is self-policing. Self-policing means (1) taking adequate preventive measures to protect life and property; (2) resisting an attempt on life and/or property, should it take place in spite of preventive measures undertaken by exercising the right of private defence, and (3) active involvement in the processes of the criminal justice system. The present practice of police, however, is a hindrance to self-policing in the sense that the right of private defence cannot be exercised by a person without running the risk of prosecution by police and conviction by a court of law.[9]

The Indian police has a homely saying, printed on many a police station wall. It goes: 'Every policeman is a citizen in uniform; every citizen is a policeman without a uniform'. But the reality is very different. Police services today are essentially for the political bosses. Ours is basically a 'law and order machinery'; it cannot perform crime investigation and detection properly; it cannot regulate traffic well. This law and order machinery is also routinely subverted by ruling political interests—it takes sides in political pogroms. It must, therefore, be reformed root and branch.

Today, self-policing is becoming the norm in Delhi. Every residential locality has built its own gates and appointed its own

[9]*Compendium of Observations and Recommendations of the National Police Commission,* Government of India, May 1981, para 65.18, p. 138.

security staff. The principle must be extended and these private guards empowered. I really do not believe that people need policing. I believe most of us go through life—and want to go through life—without having to do anything with the police at all. I have spent some days in a well-populated village in the Kumaon which did not have a police station and there was perfect order. Most of India is really not policed. (Most of India does not have roads!) The police are there in the towns alone, and there too they laze around most of the time. Only when political events happen—VIP visits, rallies, processions or riots—do they work. There is no other policing work done in India.

For the sake of providing the public good of law and order a police force is required: as a part of the minimal state. It must necessarily be based on the principle of self-policing. It should be efficient, effective and highly professional. Policing modern cities well is a knowledge-intensive exercise. This knowledge must be inducted. If we proceed in this manner we will get the one thing we desperately need: internal security.

INTERNATIONAL PUBLIC OPINION MATTERS

What will keep us secure internationally? There is an answer to that. International opinion in the modern world is a powerful thing. It will keep us secure. It is already protecting us from human rights abuses by our own state. It is not a 'threat to our sovereignty' or an agent of 'cultural invasion'. China and Pakistan are under as much pressure as we are to set their economies right and effect political reforms. Keeping up this pressure will yield regional security. If we want Tibet free, we must view our own borders flexibly—so that freedom and prosperity ensue to the people whose 'acres and revenues' these regimes are squabbling over. Hawks are playing us into the hands of these embattled regimes. True security (and real freedom) will not come from nuclear bombs or powerful nation states, but from the effective policing of free civic society. That is when heads will be held high, and minds become fearless, to paraphrase Tagore.

And what about borders? The fact is that these have been notional and flexible throughout history. When demarcating borders between ancient empires, historians have had to concede that their borders were only rough guides, and that people in the peripheral regions were probably free and stateless. Even to this day borders are being

re-drawn and new countries are being created—as in Africa and Eastern Europe.

The proposition here is to focus on internal security and totally freeze the nuclear option. Laws should be passed to keep our nuclear know-how strictly for 'peaceful purposes'. Internationally, we should support the movement for the worldwide abolition of nuclear weapons. As Jonathan Schell[10] reminds us, this is a moment of time when we possess a major political advantage: the Cold War is over. Nuclear weapons were part and parcel of the politics of Cold War. Since that is history, nuclear weapons should be history too. The alternative to abolition is worldwide proliferation as every state finds the excuse to arm itself because its neighbours are doing so. Confining the nuclear option to a few 'superpowers' is an impossible dream; and it is anyway downright hypocritical on the part of these states. Both India and Pakistan have proved that nuclear proliferation is the only alternative to abolition. Schell's book contains an entire chapter discussing abolition with Gen. George Lee Butler, erstwhile head of the US Strategic Air Command. In case of nuclear war, he was the person to whom the President would issue the order first—and he would begin the process of launching destruction. General Butler began as a teacher of nuclear issues, and the fact that he supports worldwide abolition of nuclear weapons now shows that there is really no other option before the planet.

Once we have frozen the nuclear option and focused on internal security, the economics of prosperity should be applied: property rights (which include law and order to secure these rights), free trade, sound money and free immigration. This will make the borders disappear for all economic purposes. Of course, political borders will remain.

THE TIEBOUT EFFECT, INTERNATIONALLY

Charles Tiebout, an American political scientist, made an interesting hypothesis[11] in the 1950s that deserves worldwide attention today.

[10]Schell, J., *The Gift of Time: The Case for Abolishing Nuclear Weapons Now*, Penguin, New Delhi, 1998.

[11]Tiebout, C., 'A Pure Theory of Local Expenditures', *Journal of Political Economy*, 64, 1956, pp. 416–24.

The Tiebout hypothesis postulated that what kept US local governments on their toes was not democracy—for participation in local elections is really minimal—but people 'voting with their feet'. That is, the 300-odd township governments in the US do not work overtime to serve the citizens' needs because of voting power, but because if they fail to deliver good services, the people will move to towns which do. This competition for citizenry keeps urban local governments on their toes.

It is this principle which must be extended to the international theatre: national governments should compete for tax-paying citizens. Free immigration will solve the problem of bad governments and rogue dictators. If there was free immigration, the Burmese would leave Burma, the Hutus and the Tutsis would find peaceful places to live, and Milosevic would not have taxpayers. The alternative to free immigration is a global cop—a role which the United States seems to be very keen on playing. I have argued in favour of self-policing within communities. I can hardly countenance any argument in favour of a global cop.

Rulers everywhere are quite like greedy capitalists in that they seek to extract the greatest benefits for themselves. But there is a vital difference. Greedy capitalists are kept in check by the market. Since we can each individually 'vote' for alternative offerings, these greedy capitalists strive hard to satisfy their customers; and their lazy workers become industrious. The power to vote with one's feet—the exit option—is vital. No businessman would work if he knew he had a captive clientele.

Governments, too, must not have a captive clientele. They must produce and sell services for a fee, and they must compete for customers. They will then realize that the people are truly sovereign. Borders will be just administrative lines on the map. They will not be prisons in which people are forced to suffer misgovernment.

These political borders exist today, but they should not be fought and died for when the threats are illusory. Neither Pakistan nor China is in a position to rule India. We threw out the British, despite the fact that they had cultivated substantial goodwill within the population—a goodwill they continue to enjoy. We can throw out anyone else by civic action alone.

Further, both Pakistan and China are in need of political and economic reform—just like us. Their regimes are therefore bogged

down by internal issues and are incapable of going to war for the sake of military conquest—which is, in any case, totally unfeasible in the modern world. (Note that the Kargil conflict was not called 'war'.) India cannot dominate Kashmir eternally with military might. And closing borders in order to secure territory leads to the starving of the local population—hence this should be avoided at all costs.

The case for free immigration extends well beyond our shores. In Africa, immigration controls damaged local economies, as Lord Peter Bauer showed. In Central Asia, which was once one under the Soviet Union, borders and immigration controls have reappeared after the break up of the USSR. The historical prosperity of Central Asia was dependent on free trade and free movement in that vast space. It is no longer possible now. Colin Thubron's travelogue, *The Lost Heart of Asia,* takes us through Turkmenistan, Uzbekistan, Kazakhstan, Kirghiztan and Tajikistan. One theme dominates: local people cursing immigration controls and border checkposts. They engender corruption and keep the people poor. There is a vast world out there, and it cannot and should not be divided up in this manner.

It is in India's interest to promote free immigration—by practising it. The *Economic Times* recently argued in an editorial that there was no reason for the Indian state not to emulate the Mughal *Jahanpanah*, who declared his state to be 'the refuge of the world.' If tax-paying citizens leave other states and come here, our state gets to collect the taxes they pay. Further, Indians are great migrants—and most of this migration is accomplished illegally. Recently, there have been protests regarding illegal Indian immigrants from—of all places—Kenya! A ship full of illegal Indian immigrants capsized in the Mediterranean some time ago, causing many deaths. This business of immigration control must disappear. Immigration control is a racket conducted by the rudest bureaucrats on the planet. Their tribe should see extinction.

One valid objection to free immigration is the fact that this stretches the 'welfare state' activities of the richer countries of the world to unsustainable levels. Who the hell wants welfare anyway? When the Prophet Muhammad, peace be upon him, was forced to leave Mecca and seek shelter in Medina, he asked the citizens of Medina to look upon his Meccan followers as brothers and 'fraternize in Allah'. The people of Medina willingly agreed and rushed to share their belongings and their homes with their new friends. But the people of Mecca did

not want charity. They said—and these words should ring around the world today: 'Show us the way to the market and we will make our way by working.'

Free immigration is the only way we can escape persecution and misgovernment and punish erring dictators without requesting the services of a global cop. The Jews fled Egypt; the Prophet fled Mecca; and the Rastafarians still dream of an exodus from Babylon. This must be allowed and even encouraged. But immigrants do not need the welfare state; they need access to the market. They will always bring in prosperity. If we travel around Delhi, we see many prosperous localities that have been built up by refugees from the Partition (forced migration): Karol Bagh, Patel Nagar, East Pakistan Displaced Peoples' Colony... these are all quite rich today. By not allowing free immigration, the world powers are making refugee camps: of Hutus, Tutsis and Kosovars. Here they get aid and suffer poverty. They should be allowed to flee. Every animal has the choice to fight or to take flight. Where fighting is not possible because the oppressor is too strong, rather than calling in the global cop, the people should be given the freedom to take flight. Like the refugees who have made Delhi prosperous, these very people will contribute greatly to the economies of those cities and towns they go to.

BEYOND KARGIL

The Indian armed forces have fought well in Kargil; but it is not enough to just be good fighters. Armed forces' personnel are tax-paying citizens with the right to vote: they must be intellectually armed to exercise their citizenship rights well. They must be more than cannon fodder. I know many retired officers and their lives are blighted by the failures of civilian administration. It makes no sense to live in a country where only the military works and the rest fails.

The armed forces must study economics and political science along with the various subjects that they already study. Then, they too will champion economic reforms. They will not just be preserving bad rulers; they will work towards policies that make the region safe and prosperous.

I have been to Kargil. It was February 1985 and I was taken to a border post. Just across a chasm there was a Pakistani gun post. I

looked down at the river-bed and saw the local people, with their animals, crossing back and forth—while the two states faced each other off with big guns. It is time we think of these local people: they cannot be allowed to become victims of the puerile politics of this region.

The people of Kashmir must be allowed the opportunity to decide what they want: India, Pakistan or independence. Let the borders here be redrawn again. There are possibilities of Swiss-style democracy in Kashmir because, like Switzerland which has Germans, French and Italian sections, Kashmir comprises Hindus, Muslims and Buddhists. If the border is open then there can be competition between the local governments on both sides: citizens can choose to settle down in Gilgit, Hunza or Skardu on the Pakistani side, or Jammu, Srinagar, Leh and Kargil on the Indian. This Tiebout effect will work wonders for Kashmir. The market, and not the military, will march over this beautiful but unhappy land.

Within the region, we must practice free trade. It will reduce the possibilities of war. When France and England were at loggerheads, Bastiat wrote this telling piece on the need for free trade:

> Among the arguments that have been advanced for the protectionist system, we must not forget the one that is founded on the idea of *national independence*.
>
> 'What shall we do in case of war,' people ask, 'if we have put ourselves at the mercy of England for iron and coal?'
>
> The English monopolists for their part do not fail to exclaim: 'What will happen to Great Britain in time of war if she makes herself dependent on France for food?'
>
> The one thing that people overlook is that the sort of dependence that results from exchange, i.e. from commercial transactions, is *reciprocal* dependence. We cannot be dependent upon a foreigner without his being dependent upon us. Now, that is what constitutes the very essence of *society*. To sever natural interrelations is not to make oneself independent, but to isolate oneself completely.
>
> And observe too, that one isolates oneself in anticipation of war, but that the very act of isolating oneself is the beginning of war. It makes war easier to wage, less burdensome, and consequently less unpopular. If nations remain permanently in the world market; if their interrelations cannot be broken without their people suffering the double discomfort of privation and glut; they will no longer need the mighty navies that

> bankrupt them or the vast armies that weigh them down; the peace of the world will not be jeopardized by the caprice of a Thiers or a Palmerston;[12] and war will disappear for lack of materials, resources, motives, pretexts, and popular support.[13]

India and Pakistan must do what France and England have accomplished: peace through trade relations. Millions of free trading Indians and Pakistanis will have a greater stake in peace than George Fernandes and Sartaj Aziz—the Thiers and the Palmerstons of this age.

A BIT OF ART

Perhaps the most graphic way to convey the purport of this entire essay—that borders should disappear for all economic purposes while remaining political boundaries between nation states at peace with each other—is to express it through art. In 1915, the Russian artist Kasimir Malevich (1878–1935) 'presented the unrepresentable sublime' by painting a white square on a white background. In his Manifesto of Suprematism, Malevich said: 'I have beaten the lining of the coloured sky, torn it away and in the sack which formed itself, I have put colours and knotted it. Swim! The free white sea, infinity, lies before you.'

That is what borders should be—white lines on a white background. And we should be free—to swim in the free white sea; the infinity of planet earth should be ours. We are not indentured to nation states. This is *our* planet.

[12]Louis Adolphe Thiers (1797–1877), French statesman and historian, opponent of free trade and, in Bastiat's time, advocate of an aggressively anti-English policy for France. Henry John Temple, Viscount Palmerston (1784–1865), British Foreign Secretary when this book was written, and an opponent of France.

[13]Bastiat, F., *Economic Sophisms,* Foundation for Economic Education, New York, 1996, p. 99.

6. MORALITY!

—or How the free market fosters it

Lord guide and protect us,
When we're wrong, please correct us.
—Bob Marley

There are various reasons for undertaking an essay on a subject like morality, foremost among them being the sad fact that there has been a complete breakdown in standards of public morality in India over the last few decades. The word 'scam' has gained wide currency, and the common 'suitcase' has acquired uncommon status. At a seminar in London, someone I met referred to India as a 'kleptocracy' —the rule of thieves. Here, perhaps the only commandment that is obeyed is what Jeffrey Archer mistakenly dubbed the eleventh: Thou shalt not get caught.[1]

Simultaneously, the kleptocratic state is hell bent on assuming the role of Guardian of Public Morality. At a time when the International Labour Organization has asked governments to legalize prostitution and treat it like any other business, the Indian state has decided to ban 'phone sex'! Sexual morality is also a matter worth discussing, Bill Clinton having blown the covers off monogamy.

This essay could as well have been titled 'Secularism', for its purpose is to probe the secular foundations of human morality. India chose to be a 'secular' country; but surely secularism contains a

[1]Lord Archer should have called it the twelfth commandment, for Jesus had already delivered the eleventh: 'A new commandment I give unto you, that ye love one another' (John 13: 34).

morality. We obviously made some mistake here, for morality is one thing that has escaped our socialist society. It is vital, therefore, that we explore the secular foundations of morality. For if we do not know what these are, our society shall never possess morality. We must realize that religion is not the only basis of morality. Our secular society has not lost its moral fibre because it is not based on religion. Human morality came long before religion.

THE SECULAR FOUNDATIONS OF MORALITY

Many have said that the decline of religion in contemporary times has contributed to the decline in morality; but this viewpoint does not allow that morality must have preceded religion. That is, there must have been some inherent morality in human beings that enabled religion to come about and attempt to rationalize the subject. When the Ten Commandments were delivered, there must have been something within the people that made them recognize these as God's true diktat. There must have been love long before Jesus asked us to love one another. Henry Hazlitt puts this point across much better:

> Speculative thought comes late in the history of mankind. Men act before they philosophize about their actions. They learned to talk, and developed language, ages before they developed any interest in grammar or linguistics. They worked and saved, planted crops, fashioned tools, built homes, owned, bartered, bought and sold, and developed money, long before they formulated any explicit theories of economics. They developed forms of government and law, and even judges and courts, before they formulated theories of politics and jurisprudence. And they acted implicitly in accordance with a code of morals, rewarded or punished, approved or disapproved of the actions of their fellows in adhering to or violating that code of morals, long before it even occurred to them to inquire into the rationale of what they were doing.[2]

As Hazlitt points out, 'Each of us has grown up in a world in which moral judgments already exist. These judgments are passed every day by everyone on the conduct of everyone else.' We even pass these judgments on ourselves, feeling 'guilty' when we think we have strayed

[2]Hazlitt, H., *The Foundations of Morality*, 2nd edition, Nash Publishing, New York, 1972, p. 11.

from the standards we had set. We all have a 'conscience'; we all possess that 'inner voice'. And about these morals, while there may be differences between our own moral standards and those of people from other lands and other ages, there is also a 'persistent core of similarity': cruelty, cowardice, treachery, lying, theft and murder are universally condemned.

The question therefore arises: Is there a moral basis for liberty? That is, if people are free, will they be moral? If they are all free to pursue their own pleasures—or happiness if you prefer the word—will there be complete social breakdown or will our inherent morality assert itself? And further, is the state—predatory and kleptocratic as it is—a promoter or destroyer of public morality?

Let us begin by examining the 'persistent core of similarity' in human morality. That theft and murder are universally condemned implies that morality has its basis in free social cooperation. Free social cooperation cannot come about if it is moral to plunder and kill. Free social cooperation occurs—and has always occurred—in the free exchange of goods and services in the free market place. The market is the basis of morality and social cooperation. It is by participating in the market economy that people realize that they have more to gain by cooperating with their fellow men and women than by looting or killing them. This realization gave rise to morality. It is because of the market that there are no cannibals any more.

HINDUISM AND ISLAM ARE BOTH MARKET BASED

Nowhere is this more clear than in the ancient Hindu saying usually found painted above the safe in any north Indian trading establishment or on the bonnet of most privately owned goods carriers: *Shubh Laabh*. These two words are the most under-recognized contribution Hinduism has made to the world. As an economist who is not also a mathematician, I rate it higher than the Zero. The expression, which translates roughly into 'auspicious profit', implies that the ancients had unearthed the morality of the market and found its effect—wealth generation through profits—beneficial to society. Intellectually speaking, this is a major discovery. Medieval Christian scholastics simply could not understand profits, prices and markets as 'auspicious' and argued endlessly over the completely irrelevant concept of 'just price'. The west had to wait till 1776 for Adam Smith to come along

before intellectually accepting the notion that free enterprise is in the larger interests of society. Adam Smith was a professor of moral philosophy—A *Theory of Moral Sentiments* remains, sadly, a most neglected work—and it is interesting that a professor of such a subject should discover the morality of the market and the eternal truth contained in the two little words: *Shubh Laabh*.

Similarly, Islamic morality has a lot to do with the market. The Prophet Mohammad, peace be upon him, was a free trader—as was his wife, Khadija. The Prophet was an illiterate man who lived under the close scrutiny of history: his every decision and saying has been taken down faithfully and thus his meticulously recorded life is as important a source of Islamic tradition as is the Koran. Various incidents are illustrative.

One day a Yemeni trader was cheated by an unscrupulous group of Meccan merchants. The Yemeni wrote down a sarcastic poem commenting on the morals of Meccan merchants and recited it aloud in the market square. A meeting of the city elders was called and an order of chivalry, *Hilf al-fudul*, was formed. The young Mohammad took the pledge to protect the oppressed of the city—both locals as well as foreign visitors—and became an enthusiastic member of the *Hilf al-fudul*. Free societies do not require policing: there is enough morality in the free market to produce vigilantism.

It is easy to see, looking at this important historical incident—which must have been hugely formative in developing the morality that the Prophet Muhammad, peace be upon him, was to later preach—that morality is the essence of the open market. Even barter economics cannot occur without some recognition of what is 'mine' and what is 'not mine'. Indeed, it is only when there is an implicit recognition of property rights, plus a realization that a mutually advantageous exchange can be undertaken, does man emerge from his savage state and become economically 'rational'. This rationality includes a powerful morality—one that is in the *long-term* interests of all participants in the market process to adhere to. This is the basic politico-economic lesson to learn from the life of the last prophet to walk the earth so far!

We have now arrived at a very critical argument. Morality, it has just been argued, is in the *long-term self-interest* of all free economic agents. This implies that in freedom there will always be morality. One reason for this emerges from the story of the pledge: that cheats

and swindlers will be found out and will bear the brunt of society's moral outrage. Another reason also emerges from the life of the Prophet Mohammad, and this is an area of considerable new interest in economics: reputation.[3]

REPUTATION ENFORCES MARKET MORALITY

The Prophet's life is extremely relevant to discussions on public (or political) morality because he was an exceptional political leader who took part in regular decisions of government. There is the added advantage of the fact that he insisted on documenting his decisions—and was constantly served by a group of 45 scribes who carefully noted down everything he did or said. From the documents that have come down to us, scholars have arrived at every detail of the Prophet's life: political treaties; military enlistments; assignment of officials; state correspondence; his behaviour as a husband, father and nephew; his attitude towards women, children and animals; his business transactions; his stand towards the poor and the oppressed; his behaviour in battle; and even his personal dealings with his wives. There cannot have been greater transparency in the life of a public figure.

The question arises as to what qualities made this humble, illiterate trader establish himself among his people as a moral and righteous leader. This is where 'reputation' comes in—something that is a powerful reinforcer of morality in the free market. The Prophet also earned his reputation in the free market—with his righteous activities as an active member of the *Hilf al-fudul*—and this earned him the trust of the tribal leaders of Mecca to adjudicate over a major dispute.

The Ka'aba had burnt to the ground. After it was rebuilt—with the participation of all the four tribes of Mecca—a quarrel arose over which tribal leader was to have the honour of fixing the sacred Black Stone on the wall. After a great deal of quarreling, the four tribal leaders finally agreed to abide by the decision of an impartial judge. The man selected to judge the issue was the same man who would later become their Prophet. The decision delivered was wise: a cloth

[3]For further details, see Daniel B. Klein, 'Trust for Hire: Voluntary Remedies for Quality and Safety', in *Self-Regulation in the Civil Society,* Centre for Civil Society, New Delhi, 1998.

was spread on the ground and the sacred stone placed on it. The four leaders were to each hold one corner of the stone and thus transport the cloth to its place. Integrity, honesty and wisdom earned Mohammad the title 'Al Amin'—the trustworthy. This shows the inter-relationship between the morality of the market and the power of reputation as a reinforcer of morality.

Islamic morality is rooted in the free market and free trade. It is the morality of free economic agents: traders. Merchants, not soldiers, spread it. So is Hindu morality, which first said *'Shubh Laabh'*. It is astonishing that in many societies which claim to follow these two major world religions, instead of freedom of the market and the morality that would naturally ensue, the people have opted instead for economically powerful states which have destroyed public morality. While many have argued against the state on the grounds that it promotes economic inefficiency, few have looked at statism as a methodical assault on society's morals. Hence, socialism with its bleeding heart continues to occupy the high moral ground. Let us proceed with its dethronement.

The question is: What happens to morality when an economically powerful state disregards the market? In his foreword to Rev. Robert Sirico's *A Moral Basis for Liberty*,[4] Robert Whelan makes a brief comment on morality under socialist statism and finds that 'people have been accustomed, for two or three generations, to acquiring resources by party contacts, by corruption and illegal economic activity in the black economy, rather than by hard work and entrepreneurial flair.' It is precisely this that socialist, statist morality is all about. As someone once said: Communism is the 'religion of immorality'.

CREDITWORTHINESS ENFORCES MORALITY

Money and credit are discussed in greater detail elsewhere in this volume, but here let us ponder on the fact that in a completely free market, the 'worth' of a man includes the amount of credit he can avail of. Creditworthiness is a real, tangible thing. Some have it. Some don't. If you want a credit card, you have to prove to the bank

[4]Institute of Economic Affairs, London, 1994.

that you can pay your bills; and you must pay your bills regularly in case you want to retain that card. In the small world around you, you might need occasional credit from a wide array of people: the cigarette shop; the fruit and vegetable vendor; the grocer... In case you want to retain this credit, you must be moral and pay back promptly or, the next time you go when in need, credit will be refused to you. Creditworthiness, in a free market economy, enforces moral behaviour. When states control credit, bankrupts go around flaunting wealth obtained from state banks.

THE MORALITY OF SEEKING HAPPINESS

The morality of freedom is the morality to be able to freely pursue 'happiness' or 'pleasure' as one sees it. This is not a particularly new viewpoint: the Epicureans believed in precisely this—and were vilified for the same reason. In recent times, Jeremy Bentham has been a noted philosopher of this school of thought. But the freedom to search for pleasure does not exclude morality. Bentham's *Deontology* is subtitled 'The Science of Morality,' in which the 'harmony and co-incidence of Duty and Self-Interest, Virtue and Felicity, Prudence and Benevolence are explained and exemplified.'

'Morality,' Bentham says, 'is the art of maximizing happiness: it gives the code of laws by which that conduct is suggested whose result will, the whole of human existence being taken into account, leave the greatest quantity of felicity.'

Bentham tried to measure pleasure—or happiness—and considered it moral for people to pursue their pleasures freely. For this reason he has often been ridiculed and not taken seriously. But in his 'hedonistic calculus', Bentham maintained that we all measure one very important characteristic of any pleasure we pursue—and that is its 'duration'. We will not pursue vice if left free to do so simply because the duration of the pleasure is too short: long-term misery is the inevitable result of a life of vice. The rational seeker of pleasure will not pursue such a life.

Bentham avers that the calculus of the hedonist, which is what the moralist seeks, can be 'reduced to a single inquiry':

> At what cost of future pain or sacrifice of future pleasure is a present pleasure purchased? What repayment of future pleasure may be

> anticipated for a present pain? Out of this examination morality must be developed. Temptation is the present pleasure—punishment is the future pain; sacrifice is the present pain—enjoyment is the future recompense. The question of virtue and vice are, for the most part, reduced to the weighing of that which *is*, against that which *will be*. The virtuous man has a store of happiness in coming time, the vicious man has prodigally spent his revenues of happiness. Today the vicious man seems to have a balance of pleasure in his favour; tomorrow the balance will be adjusted, and the day after it will be ascertained to be wholly in favour of the virtuous man. Vice is a spendthrift, flinging away what is far better than wealth, or health, or youth, or beauty—namely, happiness: because all of these without happiness are of little value. Virtue is a prudent economist that gets back all her outlay with interest.'[5]

This natural 'Prudence' is in 'harmony and co-incidence' with 'Benevolence', Bentham goes on to state. 'Prudence' here should not be confused with 'selfishness' or 'rational egotism'. Jeremy Bentham spoke also of what he called 'Extra-regarding Prudence'. That is, it is also prudent for us to keep in mind the feelings of our fellow men—whose approval and cooperation we constantly need—and to therefore cultivate their goodwill: 'Of man's pleasures, a great proportion is dependent on the will of others, and can only be possessed by him with their concurrence and co-operation.'[6] It is no wonder that the proverb goes, 'Do unto others as you would have them do unto you.' Proverbs are an ancient and powerful source of morality. There is no language that does not have them. Proverbs developed out of complete and total anarchy, thus proving that Man is naturally moral. This morality asserted itself simply because human beings—even in small, closed societies—survive by cooperating with each other. Prudence is extra-regarding. There are no cannibals any more. We no longer look at each other as possible lunch simply because we have found more fruitful ways of interacting with each other.

The market economy has played an important role in bringing about this change. The market forces us to be nice to each other; to cultivate good relations. Public relations is an important industry by

[5]Quoted in Hazlitt, op. cit.

[6]We not only care about other people, but about long-term issues affecting all of us. Extra-regarding prudence is exactly what the environmental movement is all about.

itself. It is driven by an important need of the market economy: that the world outside perceives business to be honest. We find, amongst Indian business communities, the practice of giving gifts during festivals like Diwali. The market economy forces on us the need to do well unto others. Contrast it with statism, under which the ruling class goes about accompanied by hordes of armed bodyguards, and one thing people with armed bodyguards have obviously not cultivated is goodwill. This difference, unfortunately, very few economists have noted.

I once heard of a survey in the US which revealed that professors of economics were rated the 'most selfish' people on campus. This is a tragedy. These eminences have mistaken the notion of 'rational egotism'—what Ayn Rand called 'the virtue of selfishness.' Rationality in the market economy is 'extra-regarding'. We are forced in the market to seek goodwill. This is basic to the morality of the market economy.

Human beings are especially able to undertake enormous projects simply because they have the ability to cooperate, to do things together. Adam Smith begins *The Wealth of Nations* by illustrating the enormous increases in productivity that result from the division of labour in a pin factory: one man draws the wire, another cuts it, one fixes the head, another sharpens the point and so on. They together make many times more pins than they could have if they each attempted to perform all the tasks individually. This division of labour is basic to human cooperation. It comes about because of market forces. It leads to increases in productivity: which lead to increases in income and wealth for the individuals as well as for the entire community. But we need not look to 'industrialization' to find the foundations of human economic cooperation. It is seen as much if not more within remote tribal societies. A tribe comprises a set of people who cooperate with each other: to hunt, to fish, to build houses, to guard against predators...

MARKETS PROMOTE GOOD MANNERS

Thus, amongst human beings, we have what is the 'core' of all natural morality: manners. The rules of good manners, of sparing the feelings of others, of avoiding ill will and cultivating goodwill—all emerge from the need to win the affections of those around us. These are

promoted by the market economy. Under statism, rewards go to those with connections, who bribe and who otherwise do illegal or outright immoral things to win favours of the state. Or they go to sycophants; and that is another kind of manners altogether.

In India, there is something called 'muscle power' that is intimately connected with statist political parties: what we call *dadagiri*. Statism destroys natural human morality. Good manners develop naturally in the market. Once again, we can cite Prophet Mohammad, peace be upon him, who developed his morality in the market economy. He said: 'No father gives his child anything better than good manners.' Amongst his various sayings, I have unearthed one that prescribed a specific act of mannerly behaviour. He said: A man should accompany his guest to the door of his house. Lucknow was famous for its manners when market economics was practised. Bengal bred *bhadraloks*.

The importance of good manners cannot be understated. Good manners aid us in social cooperation. All this happens freely if people are left to pursue their own happiness, using their own intelligence—in the market economy. States somehow assume that human beings are naturally immoral and hence require the state's intervention. In India, this tendency is pronounced. There isn't a single casino in the entire country; prostitution is cruelly repressed by the state's police; marijuana is illegal; prohibition is enshrined in the constitution; pay days are dry in Delhi, ostensibly to prevent us drinking away our month's earnings on a single binge; and the film censors do not allow kissing on screen. Frederic Bastiat has a very powerful argument against this.

The law, Bastiat asserted, is mere brute force. It cannot make moral beings of us. Those who believe in using law to promote their ideas of morality are usually democratic socialists. When they are being democratic, they believe the people to be good, just and wise: Never question the wisdom of the voter, they say when they are elected. But when they become socialist and impose state morality, they assume that the very same voters have completely lost their brains and will degenerate at the first whiff of freedom. *These laws destroy the legitimacy of the legislator.* If legislators believe that the people who voted them in are incapable of handling freedom, then they are but the representatives of the intellectually handicapped—hence unfit to make law.

THE MORALITY FOSTERED BY SEXUAL UNION

We have so far identified the market to be one of the natural foundations of secular morality. Is there another? I do believe that this question is answered in Hinduism, which developed its morality very early in the history of the human race. Of critical importance is the doctrine of the 'Four Ends of Man': *dharma, artha, kama, moksha*. The doctrine is descriptive as well as prescriptive. It says that these are not only the four ends of man; it also suggests that these *should* be the four ends of man. Maslow's famous 'hierarchy of needs' closely resembles this doctrine. What do these words mean?

Dharma translates roughly into morality. Morality is an end of man. Man pursues morality. That is, man does not desire to live in an immoral manner; he searches for a moral way of life.[7] This explains the persistence of religion or kinds of religion all over the world—even amongst the most primitive and isolated people. There are no 'savages': all humans have morality.

Man also pursues *artha*—or wealth—and *kama*, or sexual satisfaction. *Moksha* is salvation, and this is the final end of man. A great deal can be read into these four words. They reveal something about the origins of human morality.

Before *artha*—or wealth creation through the market—there was another important source of human morality and cooperation: the sexual union, *kama*. Before there was a single factory or farm, there was a human institution that practised 'division of labour': the family. The sexual union, resulting from the sexual drive, gave rise to the institution of family, which lies at the foundation of all human morality and all social cooperation. When Hindus worship the sexual union—Shiva's *lingam* enjoined in a *yoni*—they are usually seen as 'heathens' or 'pagans'. The only western philosopher who looked at us differently is, surprisingly, Machiavelli. He recommended to Christians what he called 'the pagan virtues'. The heathen worshipper of the sexual union is testifying to the basis of his virtues. The power of the sexual union—and the profound feelings it can produce—has been much appreciated by tantrik philosophy. *Aum Mani Padme Hum* translates into 'The Jewel is in the Divine Coitus.' There is no part of the world

[7]Quite simply, we seek to be free; but we also seek approval. This makes us moral, each in his or her own way.

where human love is not celebrated—and it cannot be doubted that love, a powerful moral sentiment, comes from the sexual union.

In this context, it is worth noting that both, the virgin who settles for an 'arranged marriage' as well as the girl who dates, believe the sexual union to be the pathway to love. The former simply believes that in the union lies love; the latter believes that through the union she will find love. Of course, it is not true that every time there is sexual union there is love: thus, many arranged marriages fail. However, if one were to treat physical love as a way of finding true lasting love—whatever that is, and God bless all those who find it—then surely there lies a moral case for sexual freedom.

We have thus arrived at the foundations of human morality—the sexual union and the market, in that order. Statism, surprisingly, looks at both of these as immoral. Indian movies do not depict adult love realistically because of our censors, 'the guardians of public morality'. Prostitution is repressed because it is deemed immoral. Erotic literature is banned—in the Internet age. The question arises whether all this 'commercialization of sex' perverts the sexual union—which Hindus worship—and should the state therefore interfere.

Morality is not something the law possesses, as Bastiat tellingly wrote. The law is mere brute force. It allows something; it disallows something else. The sexual union and the morality it leads to are to be discovered by all—each in their own way. Since sex is something to be enjoyed, it is inevitable that humans, being 'economic', will trade in sexual services. Someone once called marriage 'licensed prostitution'. Even in some animals—like penguins—sexual favours are obtained only by giving away something. Naturally, if some can sell sexual services, others will sell things that titillate: erotica. All this is part and parcel of human sexuality, and the morality of humans as both sexual as well as economic creatures. The state can go to hell. If we needed government over human sexuality, we would not be the advanced species that we are. If chimpanzees enjoy their sexuality naturally, why not we?

Our species is designed to be sexually active: we do not have mating seasons, and can—and some lucky ones do—copulate daily; even a dozen times daily. The female of our species has permanent breasts: they do not emerge when children are born; they emerge at puberty as a sexual stimulant for the male—and they stay permanent thereafter. These breasts are a unique creation of nature; and if we

believe in 'natural selection', then a lot can be said about the role of free, ungoverned sexual selection in creating the human race as we now see it. Free, ungoverned sexual selection is normal, it is natural, and it builds a powerful morality. Statist controls only pervert sexuality with an unnatural morality—the kind Alfred Dolittle in *Pygmalion* called 'middle class morality'. Bill Clinton, a man who smoked marijuana without inhaling and chewed on cigars with interesting flavours is a victim of—and a hostage to—middle class morality. This middle class morality does not recognize man as naturally moral. It supports every restriction on human freedom in the belief that without these restrictions, we would proceed headlong into a life of endless vice. Indeed, it does not recognize the freedom to pursue pleasure as moral—and as a reinforcer of morality. Thus, we are not free, while American presidents claim to 'lead the Free World'. And we are not moral either. I would like to see a leader of the free world who openly inhales marijuana and buys sex when he (or she) needs it: that is the morality of freedom.

Middle class morality is the single reason why prostitution is so severely repressed in India, and also why prostitutes and their children are stigmatized. In an earlier era, when morality was not the subject of legislation, and human sexuality progressed freely with human economic freedom, prostitution was not stigmatized. Writing of India circa 700 AD, the historian Romila Thapar says:

> The courtesan was a normal feature of urban life, neither romanticized nor treated with contempt. Judging by the training given to the courtesan in the *Kamasutra*, it was among the more demanding professions, for she was often called upon to be a cultured companion like the geisha of Japan or the hetaera of Greece.[8]

The repression of prostitution, by the legal imposition of middle class morality, has coincided with the stigmatization of the profession. This has heaped indignity upon the lives of those already victimized by various mafias—both illegal as well as in uniform. What should be an open and free—and demanding—profession for those who are what the *Arthashastra* calls *rupajivikas* (those who survive on their beauty), or those who want to escape patriarchy and poverty, has

[8]Thapar, R., *A History of India I,* Penguin, Harmondsworth, 1966, p. 151.

become a den of crime and exploitation. All this while society has been denied sexual outlets that the free market would have provided, hence reducing sexual crimes like rape. Rape, especially child rape, is a common occurrence in India. There is also child prostitution, but unless the industry is legal, can this be controlled? But there are other more serious consequences of middle class morality—and these befall ordinary people like you and me.

Since middle class morality commands the high ground in India, this is a country where there is very little love: marriages are 'arranged'; dowry deaths are common; divorcees and widows have a bad time; and so on. The movies and music, of course, tell endlessly of love in all its multifarious forms; but reality is starkly different. In Vikram Seth's *A Suitable Boy*, one thing that Lata, the heroine, was not looking for in this world was love!

Yet, there is the other India, where matriarchy, polygamy and polyandry are widely practised in certain societies. The sexual openness of tribal societies like those who live in Bastar are widely admired. Close home, there is Bhutan, a country that is well-known for the sexual openness of its people, thanks to the morality of sexual freedom preached and practised by the Buddhist sage, Drukpa Kuenley. The King of Bhutan has four wives! All these practices should be deemed 'moral': they are all ways of freedom; how free people find love and happiness and mutual cooperation. However people find their happiness—and love—that is a moral way, another moral way. It is not the purpose of the governors of society to promote a particular morality—like say, monogamy. It should be seen as just one of the ways among many. The very notion of a uniform civil code is immoral.

THE FORCES THAT 'MAKE FOR GOOD'

Toynbee is a historian who inquired into the historical roots of human morality and reached a conclusion that is worth quoting at length:

> The concepts of right and wrong, of good and bad, are relative to each other only logically; imperatively, they are not at par; for our conscience forbids us to be neutral; it commands us to take action on behalf of what is right and good, against what is wrong and bad. This distinction between right and wrong, and the obligation to take sides, are built into human

> nature, and this suggests that *they are built into the nature of the Universe.... This suggests that in and beyond and behind the Universe, as well as in a human being's conscience, there is some spiritual power that is making for good.* This power may not be omnipotent, and indeed it cannot be omnipotent if it is truly making for good, since the world in which we human beings find ourselves is a mixture of good and evil, and a creator who was good, besides being omnipotent, would not have made the world like that.[9]

Toynbee goes on to mention that Lucretius put this point across 'forcefully'; but I must say that A.J. Ayer, in his Gifford Lecture on Natural Theology,[10] reached the same conclusion on the nature of God most logically. Speaking of the conception of God as being benevolent, omniscient and omnipotent, Ayer found these claims do not stand up to pure reason. The attributes are contradictory: 'if one thought of the world's history as having been planned by its creator, a strong case could be made for inferring that he was malevolent'; if he is unaware of what is actually happening here then he cannot be omniscient; and if he is omniscient and benevolent and does nothing about it, then he cannot be omnipotent!

But, even if God cannot be what many think him to be, there are 'forces making for good'. Let us recognize them: they are the sexual union and the market. Not the state. The state creates powers, privileges, pomp, pelf, might, war—and all those forces that promote evil in society by trampling natural freedom: especially the freedom to pursue wealth and sexual satisfaction. Lord Acton said 'power corrupts and absolute power corrupts absolutely.' That is the fact. Freedom brings about morality. Power corrupts.

Nor does morality emerge from the consternations of the middle classes, who typically see themselves as the role models of society: because they are the most prudent; they occupy the high grounds in arts, administration, commerce and knowledge. This middle class morality in India verges on extreme prudery today. And it is a statist prudery: in that it seeks the state to impose its moral standards on society. Thus, there are no nude beaches in a country where the

[9]Toynbee, A., *A Study of History,* Portland House, New York, 1988, p. 349 (emphasis added).

[10]Ayer, A.J., 'The Claims of Theology', in *The Central Questions of Philosophy,* Penguin, Harmondsworth, 1973, pp. 211-35.

mighty Mahavira stands proudly naked. Thus, no erotic dance in Indian nightclubs, although in most of rural India women go around bare-breasted. The prudery of the Indian middle class can be defeated by insisting that the law should not be used to enforce morality. In freedom, a better morality will emerge. The sexual union will be celebrated. People will find love. No more arranged marriages and dowry deaths.

It is not unsurprising that the secular foundations of human morality are contained in six words from ancient Hinduism: *Shubh Laabh* and *Dharma, Artha, Kama, Moksha*. The earliest moralities are bound to be closer to the secular foundations of peaceful human cooperation. Hinduism is the religion and the morality of freedom. Let us practice it, finding the 'persistent core of similarity' we have with other religions and moralities. Hindus needlessly fear Islam—as does the west—but it is equally a morality that is based on free trade (and free immigration). All religions share this persistent core: they all talk about a morality in which we can all be free and moral. That is the goal of every religion. We can all co-exist in the free market. Hindus greet each other with 'Namaste' which means, 'the God in me salutes the God in you.' This is a greeting of great significance to a world where religions cannot seem to co-exist.

THE IMMORALITY OF THE WELFARE STATE

Socialism claims to occupy the high moral ground essentially because of its concern for the poor and the downtrodden. But it brings in the state to help, which, as we have discussed, destroys all human morality. The state is not an instrument of charity. For that we can have thousands of competing—and highly effective—private charitable organizations: the 'third sector' is a recognized component of the market economy. Apart from charity, which is intentional, there is the other virtue—generosity—which is spontaneous. When the state takes over the role of being the chief charitable institution in the country, it erodes the natural generosity in civic society.[11]

There is a more important aspect. State generosity destroys the natural tendency of human beings to improve their condition. Many

[11]Machan, T.R., *Generosity: Virtue in Civil Society*, Cato Institute, Washington DC, 1988.

become dependent on state aid and refuse to better their prospects in the market economy. Just because monkeys beg for food on the road to Roorkee does not prove the forest is poor. Just because people beg in India does not prove India is without resources. Beggars exist simply because Hindus and Muslims encourage them. They have encouraged it so much that it has become an industry. This industry is so evil that there is a law prohibiting the maiming of children for pushing them into beggary. The fact that this law exists means that this practice must be existing too. Of course, this is free society perverting incentives with wrong ideas of charity. Sikhs and Parsis do not have beggars because their entire ideology is different. The welfare state, if it is ever implemented here, will create a huge class of beggars. They will never fulfill their true human potential—to be a complete, economically successful and socially respected human being. They will be like rabbits in cages, refusing to step out into the wilds because they fear it. This will kill their human spirit and the very idea of freedom being a means to self-fulfillment.

The most important virtue freedom requires is 'responsibility': we must each be responsible for ourselves and not depend on others, including the state, for our survival. Only people who are thus fulfill their human potential. Competition creates conditions for the struggle for economic survival. People who are responsible for themselves are powered by the ideology of 'self-help': the essential requirement of the free market economy's morality. The classic text on self-help is by Samuel Smiles. It was the greatest success story of Victorian publishing and sold 20,000 copies in its first year. It was translated into a dozen languages including Japanese, Arabic and Turkish. The Japanese found self-help most consistent with their morality and it powered the moral virtues of the Meiji Restoration. I quote from the opening page of the 1866 edition:

> Heaven helps those who help themselves is a well-tried maxim, embodying in a small compass the results of vast human experience. The spirit of self-help is the root of all genuine growth in the individual; and, exhibited in the lives of many, it constitutes the true source of national vigour and strength. Help from without is often enfeebling in its effects, but help from within invariably invigorates. Whatever is done *for* men or classes, to a certain extent takes away the stimulus and necessity of doing for themselves; and where men are subjected to over-

> guidance and over-government, the inevitable tendency is to render them comparatively helpless.
>
> Even the best institutions can give man no active help. Perhaps the most they can do is, to leave him free to develop himself and improve his individual condition. But in all times men have been prone to believe that their happiness and well-being were to be secured by means of institutions rather than by their own conduct. Hence the value of legislation as an agent in human advancement has usually been much over-estimated. To constitute the millionth part of a Legislature, by voting for one or two men once in three or five years, however conscientiously this duty may be performed, can exercise but little active influence upon any man's life and character. Moreover, it is every day becoming more clearly understood, that the function of government is negative and restrictive, rather than positive and active; being resolvable principally into protection—protection of life, liberty and property. Laws, wisely administered, will secure men in the enjoyment of the fruits of their labour, whether of mind or body, at a comparatively small personal sacrifice; but no laws, however stringent, can make the idle industrious, the thriftless provident, or the drunken sober. Such reforms can only be effected by means of individual action, economy and self-denial; by better habits than by greater rights.[12]

Self-help is the morality of freedom. In freedom, there are three ways of getting what you want: earning it and paying for it; free, out of someone's love for you; or by asking for charity. To impose the state on that part of society which is productive, industrious and practising self-help so as to look after those who apparently need 'collective-help' is immoral on the part of both the state as well as the receiver of state aid. When the socialist state attempts 'redistributive justice' it destroys the morality of property rights. It plays Robin Hood and takes from the rich to give to the poor. There is no morality in theft. Robin Hood was a thief. It is not moral to steal bread even when one is starving. The socialist state cannot be a thief and yet occupy the high moral ground. Rent control is Robin Hoodism, and it is theft: what Bastiat called 'legal plunder'. So is the pet project of our latest Nobel laureate, Amartya Sen, who harps endlessly on the need for 'land reforms'. This is more legal plunder. The law takes from the rich and then the politicians and bureaucrats

[12]Smiles, S., *Self-Help: With Illustrations of Conduct and Perseverance,* Institute of Economic Affairs, London, 1996.

go about donating the grabbed land to the poor, creating their clientele. Morality is about property rights. That is true jurisprudence. Socialism destroys the morality of law by making law an instrument of theft.

Morality is innate in us. There is, within all of us, a 'spiritual power that is making for good'. That power manifests itself when we are free to experience the wonder of Life and to learn from our experiences. The two most powerful teachers of natural human morality are the sexual experience and the economic one. Both are natural, and unique human faculties. Let no state intervene in either. Thus will morality reign. Make love; make money; and say no to war—that's the way ahead. Then we will inherit the Kingdom of God. To reach there we must, necessarily, and universally, reject our states. The very thought is awesome. It reminds me of a song I once heard: 'It's a rough ride to heaven.' But if we want God's earth to be the paradise that it should be, we must take sides between freedom and statism—and fight. Liberty requires courage.

7. PROHIBITIONS!

—or Why we need the freedom to get high

> From the long experience of states like Tamil Nadu, Gujarat and Maharashtra in the enforcement of prohibition, it is clear that the prohibition law does not enjoy acceptance and support from the public at large.
>
> *—Report of the National Police Commission, May 1981.*

It may seem redundant to write a separate essay on prohibition after asserting that morality is innate; the state is not required to protect or defend it; and that power corrupts rather than improves society. Yet, despite this, there will be many a sceptic who will point to human frailties and oppose freedom. Foremost among them will be the prohibitionists, who believe that various substances—alcohol, cannabis, etc.—should be banned by state action, otherwise society will fall prey to these intoxicants. This essay seeks to establish that nothing should be banned. Some sensible policies towards these substances are called for—but prohibition is not one of them.

Law, as one English judge put it, should not be *made;* it should be *found.* That is, when making law, legislators should look at how people really are, what they do, how they do it, and then seek to enable them to continue doing what they do within the framework of a set of rules—rules that promote the common good without altering the basic rhythms of society. Prudent regulators of economic affairs, like stock markets, pay great heed to this dictum. Prohibitionists should do the same.

For there is a flip side if you do not: you attempt to force through

alternative modes of behaviour—or of conducting business. Regulators of *badla* in Indian stock markets have ultimately learnt that they have to *find* the law—not *make* it. The desire to change society through law is doomed to fail because societies—and the human beings which comprise it—have evolved in a natural way. This is particularly true in business matters: the manner in which our trading communities conduct business and maintain accounts, the instruments they use—like the *hundi*—have all evolved, and cannot be altered by the might of law. Indeed, they should not be, for why make unnecessary laws. Another legislative maxim must surely be: If it ain't broke, don't fix it.

When we come to discussing the natural rhythms of society, we are forced to face up to the fact that human beings have been altering their state of consciousness—getting 'high'—for a great many millennia. While we have noted that all human beings are necessarily 'prudent' and that this prudence is also 'extra-regarding', let us now turn our attention to another human quality—the very opposite of prudence: passion. Passion has played a major role in human history, and getting high has always been part of the passionate life. Bertrand Russell says that this passionate living gave rise to Greek philosophy. What the cult of Bacchus did for the Greeks is not very different from what the worship of Shiva is all about. Russell is worth quoting at length on this:

> The success of Bacchus in Greece is not surprising. Like all communities that have been civilized quickly, the Greeks, or at least a certain proportion of them, developed a love of the primitive, and a hankering after a more instinctive and passionate way of life than that sanctioned by current morals. To the man or woman who, by compulsion, is more civilized in behaviour than in feeling, rationality is irksome and virtue is felt as a burden and a slavery. This leads to a reaction in thought, in feeling, and in conduct....
>
> The civilized man is distinguished from the savage mainly by *prudence*, or, to use a slightly wider term, *forethought*. He is willing to endure present pains for the sake of future pleasures, even if the future pleasures are rather distant. This habit began to be important with the rise of agriculture; no animal and no savage would work in the spring in order to have food next winter.... Hunting requires no forethought; but tilling the soil is labour, and cannot be done from spontaneous impulse.

> Civilization checks impulse not only through forethought, which is a self-administered check, but also through law, custom, and religion.... Certain acts are labelled criminal, and are punished; certain others, though not punished by law, are labelled wicked, and expose those who are guilty of them to social disapproval.... On the one hand the purposes of the community are enforced upon the individual, and, on the other hand the individual, having acquired the habit of viewing his life as a whole, increasingly sacrifices his present to his future.
>
> It is evident that this process can be carried too far, as it is, for instance, by the miser. But without going to such extremes, prudence may easily involve the loss of some of the best things in life. The worshipper of Bacchus reacts against prudence. In intoxication, physical or spiritual, he recovers an intensity of feeling which prudence had destroyed; he finds the world full of delight and beauty, and his imagination is suddenly liberated from the prison of everyday preoccupations. The Bacchic ritual produced what was called 'enthusiasm,' which means, etymologically, having the god enter into the worshipper, who believed that he became one with the god. Much of what is greatest in human achievement involves some element of intoxication,[1] some sweeping away of prudence by passion. Without the Bacchic element, life would be uninteresting; with it, it is dangerous. Prudence versus passion is a conflict that runs through history. It is not a conflict in which we ought to side wholly with either party.[2]

This essay is on the side of passion. We are all prudent, yes, but each of us, to a greater or lesser degree, possesses passion. Getting 'high' is a means of releasing this passion. This is how great works of art, great pieces of poetry and great music have been born. Russell goes on to show how philosophy arose from the Bacchic ritual; and it is easy to guess that the cult of Shiva must have had a lot to do with the birth of Indian philosophy. This is not generally acknowledged. The cover of the Bedi brothers' *Sadhus: The Holy Men of Indi*a displays the painted face of one of these ascetics pulling at his *chillum.* Leafing through the book, looking into the lives and practices of these ancient sects, one finds that they have vast resources of botanical knowledge. They know which forests yield wild grains that keep them going on

[1]At this point Russell inserts a footnote which reads: 'I mean mental intoxication, not intoxication by alcohol.'

[2]Russell, B., *A History of Western Philosophy,* Simon & Schuster, New York, 1945, pp. 15-16.

their arduous treks and long periods of deprivation. They know the medicinal plants—and the poisonous ones. This is knowledge that has been accumulated and passed down over thousands of years.[3] Their practices, their diet, the routes over which they travel through the seasons—and the manner in which they get high—are all the product of accumulated past practices. Would they choose a smoke that was particularly harmful?

Sadhus are a particularly hardy bunch. You cannot live a life that is physically so demanding unless you are extremely fit. This would indicate that the herb they use is not damaging to the health. They are also philosophically insightful—an indication that the herb does not harm the mind. Indeed, they look upon the herb as a means to spiritual enlightenment. When lighting a *chillum,* some call out to Shiva to open the 'third *eye': Alakh!,Khol De Teesri Palak!*

THE CASE FOR LEGALISING CANNABIS

Cannabis use is widespread in India. And it is socially acceptable in basic Indian society. The Lord Shiva loved cannabis. His face, or his symbols—like the cobra head—adorn many a *chillum.* Sadhus are respected. *Bhang* is widely used during festivals like Holi in north India. In Bengal, a bit of cannabis has for long been part of the offerings made during Pujas. The Himalaya are famous for its excellent *charas.* Manipur and Kerala boast superb quality marijuana. Wherever you go in the entire sub-continent, cannabis grows wild, has its users, and is readily available in an illegal market. The laws are stringent, punishments severe. These laws are fairly recent—the result of India signing a US sponsored treaty. The US is leading the 'war against drugs'. It has not learnt from its experiment with the prohibition of alcohol which created the US mafia—people like Al Capone. Now, by going all out for a worldwide prohibition on drugs, the US is creating an international mafia. Narco-terrorism is the direct result of this prohibition.

On marijuana, the position of the US is particularly comical. President Clinton, the self-proclaimed 'Leader of the Free World', says that he smoked pot but 'did not inhale'!

[3]Cannabis was listed in the herbal compendiums of the Chinese emperor Shen Nung, written about 2737 BC.

The British were eminently sensible. In 1893, the House of Commons, in response to a member's motion expressing concern over widespread drug use in India, appointed the Indian Hemp Drug Commission to look into the entire matter. Its seven-volume report was presented after 30 field trips in India and interviews with 1193 witnesses. It examined hemp drugs (*ganja, charas, bhang,* marijuana, pot, weed, dope, cannabis) under three heads: health, sanity and criminal behaviour. Did these drugs damage the health? Did they damage the mind? And did they cause criminal behaviour? The conclusion: a resounding 'No!' on all three counts. The British did not prohibit hemp drugs in the India they ruled. They studied the practices of the local populace to 'find' law; they did not simply 'make' it.

The Government of India, when banning cannabis, did not look into this body of official evidence. It merely followed the US initiative without thinking of the long established practices of its citizenry. It is ever eager to protect the markets of its pampered industrialists; but it did not have the least bit of sympathy for its poorest, labouring citizens. *Ganja* is regularly smoked by rickshawallahs, construction workers, sweepers—those who toil for a pittance in our cities of joy. The entire market has been pushed underground without altering availability in the least.

It has now come to light, shockingly, that when imposing the ban on cannabis, the Government of India did not even consult its own medical community. The decision was taken by administrators and revenue officials—India's *babudom.* Dr Devendra Mohan, Head of the Department of Psychiatry, The All India Institute of Medical Sciences, New Delhi, recently convened a conference in which he put this point squarely before an invited gathering that included officials of the excise and narcotics departments: That the medical profession had not been consulted when the ban on cannabis was imposed. He asked for lifting the ban on three grounds: first, cannabis is used in Indian systems of medicine (the west uses it for treating asthma and terminal cancer) and the ban affected research; second, it grows wild in India, and is impossible to completely destroy; and third, that it has been used in India for over 4000 years, and a ban was 'unfair' to many people. But the officials stubbornly maintained they would need 'more evidence' from the medical community before they could agree to get the ban lifted, according to press reports.

Dr Mohan participated in an *Economic Times* debate on the subject. He concluded saying there was no reason why the traditional *thandai* made out of *bhang* should not be patented and sold as an alternative to alcohol. His opponent at the debate, a senior police official from the Narcotics Control Department, said cannabis users were 'untrustworthy'; and that the prohibition was in the best long-term interests of society.[4]

The nature of Indian officialdom is brilliantly brought out in the novel *English, August* by Upamanyu Chatterjee. Agastya Sen, IAS, the hero—a keen smoker of marijuana (he picks it up from the wild, showing the futility of the law)—is a man rather aghast at the great distance that separates officialdom from the people. In the film, the District Magistrate and the Superintendent of Police come off as haughty and arrogant—tinpot dictators before whom the common man is reduced to the status of a mere supplicant. There is also a bit about the administration banning alcohol from the local club, thereby forcing people—including junior officials—to party in their rooms. This shows an utter contempt for the free institutions of civic society—like clubs. It was in evidence recently, when the district administration forcibly took over the premises of the Mirzapur Club to house the offices of the newly appointed Divisional Commissioner! The High Court mercifully intervened.

Medical evidence on marijuana exists—if only Indian officialdom ever consulted knowledge. The details of the Indian Hemp Drug Commission's findings are available in James Coleman's *Abnormal Psychology and Modern Life*—the standard textbook for doctors who study for an MD in Psychiatry. It contains a chapter, 'Alcohol and Drug Abuse', which clearly mentions that marijuana is not physically addictive—unlike coffee, tea, nicotine and alcohol. On its effects, Coleman says:

> [The marijuana 'high'] ... is one of mild euphoria distinguished by increased feelings of well-being, heightened perceptual acuity, and pleasant relaxation, often accompanied by a sense of drifting or floating away. Sensory inputs are enhanced: music sounds fuller, colors look brighter, smell seems richer and food tastes better. Somehow the world

[4]"Should Cannabis Be Legalised?' *The Economic Times*, Tuesday Debate, 5 May, 1998.

> seems to become more meaningful, and even minor events take on extraordinary profundity.... For most users, pleasurable experiences, including sexual intercourse, seem to be greatly enhanced.[5]

Which idiot banned this wonderful substance! The All India Institute of Medical Sciences, New Delhi, has published a book giving its opinion on the ban. It begins with a quote from an editorial, 'Deglamorising Cannabis' in the respected medical journal, *Lancet*: 'The smoking of cannabis, even long term, is not harmful to health. Yet this widely used substance is illegal about everywhere.' AIIMS supports this point of view.[6] I echo Peter Tosh, who sang: Legalize it /I'll advertise it.

Medical evidence does not indicate any need to ban cannabis. The Indian medical profession has said so; the textbooks agree. Statistics reveal that cannabis has no relationship with crime. Indian officialdom, however, is keen on pursuing the ban on cannabis. What could be the reason?

In a truly socialist country, civic society would tend to preserve the culture and traditions of the common people. The herb that our sadhus smoke is an integral part of the Indian culture of getting high. But our officialdom does not acknowledge it. Our laws seek to stamp it out. It is the classic case of a ruling elite that is completely out of touch with the basic rhythms of society. And the reason is quite simple: the ruling elite has no pride in basic Indian culture and has adopted a western-inspired alcohol culture. They drink Indian Made Foreign Liquor! For them, the stuff that the rickshawallah uses is simply infra dig; something to be brushed under the carpet. The hypocrisy of it all was very well depicted in an 'East meets West' postcard I saw in Goa: a *chillum*-toting white man in loincloth and chappals with a suited-booted Indian and his glass of whisky! With 'liberalization', India has been targeted as a major market for whisky and major brands of Scotch have made an entry.

[5]Coleman, J.C., *Abnormal Psychology and Modem Life,* 5th Indian reprint, D.B. Taraporevala & Sons, Bombay, 1976, p. 454.

[6]Mohan, D. et al., *Cannabis: Health Damage? Legislative Options,* Drug Dependence Treatment Centre, All India Institute of Medical Sciences, New Delhi, 1997.

ALCOHOL USE IN INDIA

Not that alcohol is unknown to Indian culture and tradition. Chanakya's *Arthashastra,* the ancient Indian text on public administration, contains a chapter on the regulation of drinking taverns. An interesting stipulation says that if a traveller drinking in a tavern were to pass out and get his goods stolen, the tavern owner would be liable! There must have been many pubs in ancient Indian cities like Takshashila (Taxila) and Pataliputra where citizens had a good time. Chanakya makes a list of the alcoholic drinks that could be served—and their ingredients. These were manufactured by the state—a revenue monopoly it maintained along with one in salt. But the market was open, and the *Arthashastra* lists the alcoholic drinks that were imported.

The use of alcohol is widespread in village India. Toddy is brewed all along the coast as are rice beers like *handia* and *chhung* in the hills and the tribal belts. Arunachal Pradesh boasts a fine rice wine, *apong*. Distillates, however, are also common—from *arrack to desi* to the *mahua* used in the tribal belts. While toddy and the rice brews are not considered very damaging to the health—being natural brews, lightly fermented—the distillates are hard alcoholic drinks. Medical evidence tells of the innumerable dangers of alcohol use (Coleman talks of three serious psychoses associated with alcoholism) and, for this reason, it is necessary to have some sort of sensible policy towards it. We need to find good law. Prohibition is not such a law.

A major reason why India has had this long relationship with prohibition is Gandhi. Unfortunately, those Gandhians who have imposed prohibition upon India in the belief that they were following the precepts of their Master—like Morarji Desai—had not read him properly. Gandhi wanted to promote an alternative recreational culture. In his own words:

> It betrays want of imagination and lack of sympathy with the people if [a] Minister believes that as a prohibitionist he has nothing more to do but to declare prohibition and prosecute those who will break his laws. There is a larger and more constructive side to prohibition.... Any minister who is seriously anxious to make prohibition a success will have to develop the zeal and qualities of a reformer.... He will have to

> convert every drink shop into a refreshment shop and concert room combined. Poor laborers will want some place where they can congregate and get wholesome, cheap, refreshing, non-intoxicating drinks, and if they can have some good music at the same time, it would prove as a tonic to them and draw them in....[7]

Gandhi added that such a policy could succeed in weaning the population away from alcohol because the use of alcohol was not as widespread in India as it was in the west. But that is a complete illusion. Alcohol was and is widely used all over India, especially tribal India. I have travelled in the tribal regions of Gandhi's Gujarat, and found that they deeply resent policies which forbid them from making their traditional brews. This traditional use is not problematic. Indeed, it is a form of knowledge and the possessors of this knowledge should be able to freely sell this knowledge in Indian cities. Why only the absurdly named Indian Made Foreign Liquor? Why not some Indian Made Indian Liquor: *toddy; apong; mahua; arrack; chhang; handia, et al.?* I read a piece of bleeding heart socialist scholarship recently, which traced the life of an impoverished lower caste family from the area around Amethi: the part of Uttar Pradesh made famous as Rajiv Gandhi's political constituency.[8] The poor man migrated to Bombay, worked in the railways sifting coal. Yet, somewhere it was mentioned that he came from the caste of toddy tappers. This made no sense to me. Why should a man who had knowledge handed down over the centuries not be free to sell the fruits of his knowledge? Why should toddy not sell freely in our cities of joy? The author does not see this state intervention as the cause of the man's suffering; instead he recommends further state action, like land reforms—'legal plunder'—to 'improve the lot of the downtrodden'. I'd recommend freedom—for all.

Of course, while we allow IMIL, we should not be averse to imbibing the knowledge of alcohol developed in other lands. Some insights are gained from an extract of the tour diary of an Englishman named John Lang published in Ganesh Saili's compilation *Glorious Garhwal.*[9] The report originally appeared in the magazine *Household Words* in January 1858. It appears that Lang, along with two

[7]*Young India,* 8 September, 1927.
[8]Dube, S., *Words like Freedom,* Harper Collins, New Delhi, 1998.
[9]Roli Books, New Delhi, 1995, pp. 60-76.

companions, a German and a Frenchman, travelled through the lower Himalaya near Dehra Dun and had a truly splendid time. What was striking was what the German said after opening a bottle of hock. In essence: the hock cost 12 shillings in Delhi; the hills of Garhwal were perfect for growing grapes; he could produce wine in bucketloads and sell it for a shilling a bottle and, he added for good measure, he'd get so rich that when the Rothschilds were in trouble, they'd look to him! 'I'm a proprietor of vineyards, and do not speak at random like a schoolboy or an enthusiast,' the German pronounced.

His companions did not take up the idea immediately. Where's the market? asked one. To which the German replied that he'd sell it locally, thereby giving the locals considerably better stuff than the hard arracks and other grogs they were used to: 'Generous wine, instead of that blood-drying, brain-consuming, soul-destroying arrack.' And therein lies the rub.

THE PUBLIC SPHERE

There are two aspects—both equally important—to a sensible policy on alcohol. The first is what Gandhi referred to when he spoke of creating places where people could congregate, listen to good music, and have cheap, healthy, refreshing drinks. This is the case for the creation of a 'public sphere'—where people can meet, exchange notes and enjoy themselves after a hard day's work. Such places are sorely lacking in both urban as well as village India—not because of the absence of enterprise, but because of official antipathy and 'the law'. The excise department is the greatest hindrance to the creation of a public sphere. They have made licenses too expensive, and their raids and regulations are perverse. In the Delhi Gymkhana Club, a Raj hangout now frequented by senior bureaucrats and service officers, you cannot carry your drink from the bar and join your children in the Kashmir Lawn. (Children are not allowed into the main building.) Nor can you carry your drink into the dining room!

If this dictatorial department is brought to heel, the Gandhian idea of creating a 'public sphere' through pubs where refreshing drinks are served and music is played, can be implemented. But then, the second question arises: Gandhi was not talking about serving alcoholic drinks. We are. Indeed we're talking about complete freedom

to sell all kinds of knowledge. How can we evolve a sensible policy towards alcoholic drinks?

Our present policies are so mindless that India has become a country of hard drinkers at all levels. The poor with their arracks and *desis;* the rich with whisky and rum. This is not a pretty picture. To remedy matters, taxation policy should be used to make low alcohol beverages—like beer and wine (and toddy and *chhang*)—easy on the purse, while making hard liquor expensive. Today, taxation works to the opposite effect. Beer and wine are expensive, rum and whisky are cheap. So most people drink hard liquor. In Himachal Pradesh, where excellent beers are brewed, a bottle sells at 75 rupees (compared to 25 in Delhi) forcing locals to distil their own stuff out of molasses and barley. They mockingly call their booze 'Bapu brand', after Gandhi. It is an insult to a man who was not really unsympathetic to the people.

What is urgently required now is official action towards encouraging private enterprise to create the 'public sphere' that Gandhi spoke of. Let there be millions of these 'Gandhian pubs' enlivening our urban areas as well as every village square with music, food and drink. But let us be careful about the kind of drinking we encourage. Expensive hard liquor and cheap, good low-alcohol beverages are the way out. Good beer and good wine never harmed anyone. Unfortunately, in India, neither has been encouraged. For the price of a bottle of wine, you can get two bottles of IMFL whisky or rum in Delhi. In nearby Maharashtra, grapes grow aplenty, but not many have thought of making wine because of uncertain market demand. The government is allowing the import of Scotch, because there is a demand for it. It would be sensible to also allow the import of wines, so that as the market picks up, local manufacture follows. It is not a very difficult task. Good wines now come from South Africa, Australia and California—not just France. Once the market for wine is established —through imports—local manufacture will ensue.

For beer, there is a need to encourage the industry in the face of the high demand for hard liquor. Indeed, Indian demand for strong drinks is so pronounced that in most small towns the only beers available are the execrable 'super strong' variety. The encouragement of breweries—big, small and micro—will require first the promotion of pubs, so that locally brewed draught beers can be sold to the people at a reasonable price.

To sum up, policies towards getting 'high' have to be framed in the light of knowledge and with a certain sympathy for the common man. They cannot, and should not, be imposed from above by moralistic dictators. India's prohibition of marijuana is not based on knowledge—either ancient or modern—and is completely out of tune with the practices of the people. Regarding alcohol, official policies are even more thoughtless. They have created a society of hard drinkers among both the rich as well as the poor. Low alcohol beverages are given the go-by. What is worse still is that, completely at odds with Gandhi's sane advice, the creation of the 'public sphere' has been officially discouraged, creating a hypocritical society in which getting high is a clandestine affair conducted in closed spaces—not in public clubs, bars and pubs. The few that exist are only for the very rich—in luxury hotels.

THE MUSIC INDUSTRY

Music is an industry whose future depends greatly on the creation of this 'public sphere'. Gandhi wrote of the need for 'good music' to 'draw in' the common labourer to his alcohol-free pubs. He realized that there should be places for regular, cheap enjoyment—and that music was the best entertainment these places could offer.

With the opening up of the economy and the music TV channels, quite a few Indian musicians have taken off into 'stardom'. But for many, the struggle is an extremely difficult one. The essential problem is a complete absence of places where they can play for people. If such places existed, professional musicians would find employment —and opportunities to play daily. These are essential for their economic sustenance as well as professional development. For the people, there will be greater opportunities to hear 'live' and varied performances, instead of a constant diet of canned music.

Music is much loved in India. The most popular TV programmes are music based ones—and it is undoubted that karaoke bars will be a great hit all over the country. All told, there will be a cultural resurgence.

And it will be a happy one. No great man ever preached a philosophy of martyrdom or suffering—certainly not Gandhi. The idea, ultimately, is that people enjoy themselves. Gandhi had some good ideas along this line. They have not been implemented. Or

even spoken of. Instead, heartless and thoughtless prohibitions have been the norm, whose only beneficiaries have been India's famous 'criminalized' politicians. To our ruling class, I can only commend Gandhi's words: their actions 'betray want of imagination and lack of sympathy with the people.'

NO NEED TO PROHIBIT ANYTHING

Finally, some words must be said about other legal and illegal substances that people use: opiates, cocaine, barbiturates, amphetamines, LSD, Ecstasy, glues and what have you. I have heard of people in ancient times getting high on snakebites—on their tongues! There are as many highs as there are people, and mankind will go on developing new ones. There are dangers associated with all of these, and it is important to spread awareness of the dangers. That is more important than controls—which only create a black market. When perfectly harmless things like marijuana are banned worldwide, it is inevitable that people will look for alternatives. And the pharmaceutical industry also provides alternatives. If there is freedom, people will naturally know of and make use of those highs that cause the least damage. We must trust in the ability of people to do what is best for themselves. Surely the state is not required to play Big Mamma to us all? Let nothing be banned, and let knowledge spread. There will be prudence and there will be passion—and let not the law side with either. Let Freedom reign. We know how to handle it.

8. MONEY!

—or How private money is the only sound money

Money, it's a hit,
Don't give me that do goody good bullshit.
—Pink Floyd

Would you ever accept a piece of paper issued by a privately owned bank as money—just as you accept paper issued by the state-owned Reserve Bank of India as money today? After 150 years of central banking, this question makes no sense to all my friends. Privatization they understand—even approve. The market they comprehend—and appreciate. But privately issued money seems just too bizarre an idea.

But the proof of its practicability lies in the correct answer to the question above. The answer is obviously a loud 'No!'—with a caveat; and the key lies in this caveat. Unless the paper is convertible on demand into something you call 'money'—something of 'value' like gold—no one would accept privately issued paper money. *It is obvious, therefore, that if there were only private issuers of paper money, all these papers would necessarily have to be convertible.* So it makes you wonder why, all over the world, people are accepting inconvertible papers from their governments. Is political money better than private money? Can private money work? To answer these questions, we must first examine the concept of money and briefly probe its history up to the present day when it has become a government monopoly the world over.

Money is one of the greatest inventions of the human race. Before there was money, people would barter, but barter presented a problem. If you had fish and wanted potatoes and the chap who had potatoes didn't want fish but wanted chicken instead, you couldn't arrive at a deal. You would probably have to first go and exchange your fish for a chicken and then head for the potato man. Money saves you this problem. There is no need for a 'double coincidence of wants'. Money is a 'medium of exchange'.

Money has always been something of intrinsic value, like gold or silver. Of course, this value could be very little, as with the cowrie shells that were used as money in our very land. In concentration camps, cigarettes served the purpose of money. In my boarding school, glass marbles were currency. When any such object is used as money, people gradually get to know of 'prices' in terms of this token. Money, therefore, is a 'mode of account'.

The Austrian economist, Carl Menger, explains how money originated, why understanding this is important, and why not understanding this represents a 'lamentable' deficiency in economic scholarship:

> These difficulties [of primitive barter] would have proved absolutely insurmountable obstacles... had there not lain a remedy in the very nature of things, to wit, *the different degrees of saleableness (Absatzfahigkeit) of commodities*. The difference existing in this respect between articles of commerce is of the highest degree of significance for the theory of money, and of the market in general. And the failure to turn it adequately to account in explaining the phenomenon of trade consitutes not only as such a lamentable breach in our science, but also one of the essential causes of the backward state of monetary theory. *The theory of money necessarily presupposes a theory of the saleableness of goods*. If we grasp this, we shall be able to understand how the almost unlimited saleableness of money is only a special case—presenting only a difference of degree—of a generic phenomenon of economic life: namely, the difference in the saleableness of commodities in general.[1]

Quite simply, money originated out of trade: the most 'saleable' commodities became money. That is why cigarettes became money

[1]Menger, C., 'On the Origin of Money', in R.M. Ebeling, *Champions of Freedom: Austrian Economics: A Reader,* Hillsdale College, Michigan, 1991.

in concentration camps and glass marbles became money in my borading school. Money was not created by the state.

Paper money is just a 'token of value'. The paper, by itself, is worthless. What is of value is the asset underlying the paper—which the paper promises to pay to the holder of the note on demand. You will notice on every government note a promise by the governor of the central bank to pay that sum on demand. Initially, this meant a promise to redeem notes in gold. But today all governments have abandoned this convertibility. The entire world is using irredeemable paper—and this spells trouble. In 1920, Irving Fisher wrote that irredeemable paper money was a 'curse'. Why? To understand that we must briefly explore the origins of paper money.

THE ORIGINS OF PAPER MONEY

The inventors of paper money were goldsmiths. If you had a little store of gold, you kept it with a goldsmith—who would give you a receipt with your name on it acknowledging his liability. Now, when you decided to make a purchase, you would go across to the goldsmith, hand over the receipt and collect your gold—and make your way through the unsafe streets of your city to the merchant whose goods you wanted to buy. You would hand over your gold and make off with your purchase. That merchant would then have to negotiate those same unsafe city streets himself, with the gold, and deposit it with a goldsmith—maybe even the same goldsmith—in exchange for a receipt. It becomes obvious that if you had simply handed your receipt to the merchant, the entire transaction would have become much easier. Thus, the invention of paper money. The problem with the early goldsmith's 'notes'—as these receipts were called—was that they bore a name upon them and were encashable only by the person named. Once it was realized that there could be 'bearer' notes, we had modern paper money. Today's notes follow the example of the goldsmith's note: they have no name on them, but they have the same promise. Only the goldsmith is no more—and the central bank governor's promise is empty.

The fact that this promise is empty brings into question the *morality* of laws like FERA—India's highly repressive Foreign Exchange Regulation Act. I stress the word 'morality'. A fundamental basis of morality is property rights. Unless we can all call certain things

'mine' and distinguish them from what are 'not mine', we become savages who plunder. We snatch; we do not trade. The morality of property rights underlines trade—a basic civilizing activity. FERA involves a violation of property rights—by the central banker. The asset underlying the paper token is the property of the noteholder. When the central banker cannot redeem his promise, it is he who should be in prison: a debtors' prison. FERA is not a law that can be morally enforced.

Getting back to the goldsmiths of yore: These goldsmiths were also moneylenders—always. They used to lend out small amounts of gold for a fee called interest. With the invention of paper money they soon discovered that they could lend out bits of paper for a fee. And this was naturally an attractive prospect. That is, they need not lend gold; they could simply stock gold and lend paper. But remember, their paper always had to be convertible. So they could not lend out much more paper than the gold they had in stock. This put an effective check on the amount of paper money they could safely issue—and hence on the amount of profits they could make. So, to increase their ability to issue notes, goldsmiths began to compete for gold deposits of the public by sharing the interest they earned from lending money with those who kept gold with them—and deposit money, the cheque and fractional reserve banking were born.

We look back to this period and call it 'free banking' or 'free money'. The state did not control any aspect of the industry. At best it raised money for its own purposes from these private bankers. [Many great bankers, including the Medicis of Florence, suffered by lending excessively to states (monarchs).] It is important to realize how free banking was essentially stable—there was no chaos. Nor was there that recurring disease of modern times: inflation. Free banking was stable because it guarded against the over-issue of currency by any one bank. Every private bank had to stay afloat on its own—there being no 'central bank' performing 'lender of last resort' functions to bail it out. To stay afloat and avoid bankruptcy, each private banker had to keep a close watch on his stock of gold and the amount of notes he issued. If gold stock increased, he would issue more notes. If they depleted, he would quickly destroy all the notes that came back to him for redemption—and not re-issue them. Since every private banker was forced to act in this rational fashion, the entire system was inherently stable.

QUANTITY THEORY OF MONEY

Suppose the nation was losing export markets and its foreign trade was running at a deficit, each of these goldsmiths would find his stock of specie running down (as gold would be going overseas) and he would bring down his note issue. This would have the effect of bringing down prices, thereby making the nation more competitive and restoring its trade. Conversely, if the nation was running a huge trade surplus and piles of gold were flowing into our goldsmiths' coffers, they would issue more notes and this would have the effect of raising prices and thereby, once again, restoring the overall trade balance. This relationship between money and prices is called 'The Quantity Theory of Money.' Irving Fisher is supposed to have discovered this theory, but the phenomenon has been noted by historians ever since money first made its appearance. When the Spaniards discovered huge quantities of silver in the Potosi mines of the New World, prices rose in the whole of Europe.

To understand this simple theory, imagine yourself in an ancient South Indian town in which cowrie shells constitute money. Now suppose that, walking along the beach one day, some people found a huge pile of these little shells washed up by the sea. They would naturally be overjoyed, and head for the market to buy everything that money could buy. The shopkeepers in the market would individually see demand increase—and would raise their prices: we all know of demand and supply. But in this case what actually happens is that the supply of cowrie shells has increased and their value has gone down. Each cowrie buys less than it did before. The price of a chicken relative to a sack of potatoes may probably remain the same. That is, if chicken prices increase from 10 cowries to 12 cowries and potatoes from 5 cowries to 6 cowries it means that a chicken is still worth two sacks of potatoes—relative prices are unchanged. It is the price of money that has gone down because its supply has increased.

The Quantity Theory of Money says just that: if you increase the supply of money, prices will rise. Vice versa for reductions in the quantity of money. Or to put it another way: increase the supply of money and the value of money goes down (it buys less); vice versa for reductions in the quantity of money. Continuous unabated inflation—a phenomenon of our times—is directly related to the quantity of money issued. All this money is issued by governments.

The knowledge by which states decide how much money to issue is called 'monetary policy'. Monetary policy did not exist in the era of free banking and free money. This essay argues that the solution to the monetary policy problem is to do away with it altogether: that is, abolish central banks and make it impossible for states to conduct monetary policy. The best monetary policy is to have none whatsoever. Let there be free issue of competitive currencies by private bankers. Since all these monies will have to be convertible, private bankers will themselves regulate note issue. To establish this thesis, we have to first discredit the state's claim to be a reliable issuer of money—especially as a monopolist.

STATE AND THE MONETARY SYSTEM

Historically, monarchs coined currency, but this was not token currency. They were coins in gold and silver of certified purity and weight. The role of the state was standardization. It earned small profits in this way, there being a small difference between the value of the coin and the amount of gold it actually contained. This commission that the state earned was called 'seignorage'.

Now there were good kings and bad kings. A good king would earn his modest seignorage and be proud of the purity of the coins that carried his face to the distant corners of his realm. A bad king would scheme ways by which he could increase the base metal content (say, by inserting more brass in the gold) of his gold coin, or reduce the weight marginally – so as to be able to issue more coins for the same amount of gold. These extra coins he could then spend on wine, women and war. This is called 'debasement' of currency. It naturally caused inflation—as has been explained earlier. Debasement ruined many an economy.

In the modern world, when bad states—and we have already encountered the expression 'predatory state'—want more money than they extort from taxation, they resort to printing money. This is politely called 'deficit financing' in India. When the quantity theory begins to operate with this over-issue of currency, the predatory state continues to benefit, collecting what is known as the 'inflation tax'. The state is usually a big debtor, and by causing inflation it reduces its future liabilities. If it borrows 100 rupees today at 10 per cent for

10 years and it causes 10 per cent inflation, it has effectively cheated its creditors of their interest. These creditors include many ordinary people who have provident fund accounts. They pay this tax.

Since all this is very well known today, most people oppose deficit financing. The trick to the monetary policy question is estimating the right amount of money to issue. Even if the state balances its budget, how much money should the central bank issue? As we saw earlier, the goldsmith kept his eyes on his gold balances before deciding how many notes he could afford to circulate. The central banker was constrained to observe this discipline in the days of the gold standard. Today, the entire world uses irredeemable paper issued by monopolistic central bankers. There is worldwide inflation. There are 'currency crises' in many parts of the world—most recently in East Asia. Monetary policy is unable to find any permanent solution. And the reason is clear: central bankers simply do not care how much money they issue because it is entirely irredeemable. They attempt to trade off inflation for unemployment—that is, when there is inflation they cut down money supply and settle for a little unemployment; and when there is too much unemployment they increase money supply and have a little inflation. This they call 'fine-tuning'. Or else they explain themselves in complicated economic jargon—monetary measures like MI, M2 and so on. But it is time to realize, at least for citizens of predatory states, that central banking is complete hogwash, best dispensed with. Monetary policy can go the same way.

STATE BANKING IS AN ECONOMIC EVIL

For a country like India, this logically also means complete privatization of the banking industry which was nationalized by Indira Gandhi to finance her populist 20 Point Programme. To understand how great an economic evil is a state-owned banking industry, consider an assertion often made in the most respectable textbooks—that, 'banks create credit out of nothing.' This implies that banks manufacture credit just as central banks manufacture money—and the notion assaults the sensibilities of those who work hard for their money. How come they have to work hard for money while some, it seems, get it out of thin air?

George Winder[2] has eloquently shown how the assertion that 'banks create credit out of nothing' is not the complete truth, for it obscures a matter of critical importance. Banks issue loans to people who are creditworthy. These are fiscally responsible people and the banker's job is essentially one of recognizing this quality of theirs. Banks merely monetize already existing credit. They do not create credit out of nothing. There is something very real and tangible on the basis of which credit is created: and that is credit itself, which exists in the creditworthy customer.

(This applies to individual banks. The banking system as a whole, theoretically, does create credit out of thin air. This is because of fractional reserves. When one bank creates credit, the money finds its way to other banks whose deposits increase. They then create more credit accordingly. But it must always be borne in mind that individual banks do not create credit. They monetize credit. The credit is inherent in the creditworthy customer.)

There is an old saying which goes: if you want money from a bank, prove to the banker that you don't need it. It applies to all of us: would your local grocer extend you credit unless he really knew you or you looked suitably solid? Credit is something that is tangible. Some have it; some don't. Banks recognize it and monetize it for a fee. Credit is an ingenious discovery of the human mind. Indeed, credit must have existed and been used long before anyone decided to charge for it.

Private bankers, if left to themselves, would typically lend short-term, to someone whose money was just around the corner: crops were awaiting harvest; goods were sold but payment had yet to be received, and so on. Longer term loans had to be fully secured. It is this creditworthiness upon which good, successful banking—which lies at the core of any well-run economy—depends. Bankers have rightly been called the 'overseers' of the free market economy.

But just as banks create credit, they also destroy credit—when the money they lent out is returned to them. Thus, the extension of good credit does not cause inflation in the way our quantity theory would predict. But the extension of bad credit—money which is not returned and which circulates endlessly—is naturally inflationary. Government banks extend bad credit for political purposes. This is evident in

[2]Winder, G., *A Short History of Money,* Newman Neame, London, 1959.

India, where their portfolio of 'non-performing assets' demonstrates the extent to which politically controlled banks have frittered away our savings. Banking is an industry which has to critically rely on the self-interest of the banker. A magnanimous and generous banking industry lending money for benevolent social purposes, unmindful of returns, is an economic evil. It ignores those who are creditworthy. It destroys savings—national wealth. The bank manager is the man on the spot assessing creditworthiness. He must lend only to people who are creditworthy. A state-owned banking industry lends for political and not economic purposes. Politicians are not interested in getting the money back: they are interested only in re-election. They should have nothing to do with the allocation of credit.

The worst aspect of this, of course, is that this state-owned banking industry lends maximally to the state itself, by subscribing to government loans. The state, mind you, is not as creditworthy as our banking industry would have us believe. (A scam has just broken over the state-owned mutual fund, the Unit Trust of India!) Its papers are therefore not worth the extension of credit. The state's finances, had they been those of a private company, would never have been seen to be creditworthy. The state regularly spends more than it receives. And it goes on increasing its borrowings to pay back what it had previously borrowed—and continues happily with its political spending. You would too, if you had a monopoly on the issue of irredeemable notes and a banking industry which was duty-bound to loan you money. Money for you would grow on trees! You would not have to work for it like the rest of us. Is that a privilege the state deserves? What about 'predatory states'?

THE CREATION AND DESTRUCTION OF CREDIT

To understand how credit is created and destroyed, let us take a small example from George Winder. The scene is an island off the coast of Scotland whose inhabitants, one Saturday, frolic till the wee hours on the mainland—thereby spending most of their money. They return home and immediately thereafter a storm brews up, cutting the island off from the mainland. The problem: our little island is very short of cash, i.e. bank notes.

The problem surfaces on Monday morning when a farmhand approaches the island's most prosperous farmer for his wages. The

farmer has no bank notes; he explains the position to the farmhand. The farmhand has needs—like whisky at the local pub where he holds no credit. He gets a brainwave and asks the farmer for an IOU. The farmer gives him one for £5. The farmhand uses this IOU to get his evening's 'wee dram'. The publican hands him over the change and finds that he himself is now short of cash.

The next day the publican hands over the farmer's IOU to the butcher and makes off with some meat. The butcher, likewise, uses the IOU to get his groceries. Everyone trusts the farmer; his credit is good. IOUs signed by the farmhand would not have been accepted. A week passes and then another. The farmhand regularly collects his wages in IOUs—but asks for them in five separate IOUs for £1 each. The farmer himself needs his whisky, meat and provisions, and he issues more and more IOUs to get all that he needs. The farmer is not particularly worried, as he has enough in the mainland bank with which to redeem his IOUs. The islanders are not worried either, for they know that the farmer is productive and prosperous—and his credit is sound. Thanks to his sound credit, the farmer has created money for the entire community and the island is not forced to a grinding halt.

A few weeks later the weather clears and everyone goes to the mainland to get bank notes, sell produce, buy provisions, etc. At this point the grocer, who is also the island's chief wholesale dealer of farm produce, approaches the farmer and strikes a deal to buy 15 tons of potatoes. When asked to pay he furnishes the farmer's own IOUs worth £100. The farmer is pleased. He burns the IOUs. He has just created and destroyed credit—what banks do everyday. But note that all this activity was based on his creditworthiness. It did not come out of thin air. Ultimately, all the money was redeemable in real goods—in this case, potatoes. State-owned banking, lending mainly to the state and its clients, and state-owned central banking, which creates credit to finance those unworthy of credit, destroy the wealth of society.

CENTRAL BANKING: THE TRACK RECORD

Kurt Schuler[3] has conducted a remarkable study on currency quality

[3]Schuler, K., *Should Developing Countries Have Central Banks? Currency Quality and Monetary Systems in 155 Countries,* Institute of Economic Affairs, Research Monograph, London, 1996.

in developing countries and found no evidence to suggest that the central banks of these countries produce currency of good quality. The 'qualities' a good currency should possess include convertibility and the absence of inflation. Schuler, posing the question: *Should Developing Countries Have Central Banks?* lists alternatives to central banking, including the much talked about currency board system that Schuler and Steve Hanke had recommended for Indonesia when the rupiah collapsed. Currency boards (like Hong Kong's) are not central banks. Here, two private banks, Hong Kong Bank and Standard Chartered, issue local currency fully backed by the US dollar. The private banks deposit their US dollars with the currency board. They are then allowed to issue Hong Kong dollar notes to the extent covered by their US dollar deposits at the fixed rate of exchange. Currency boards maintain full convertibility at a *fixed* rate to an anchor currency —in Hong Kong's case, the US dollar. There is the fact, of course, that the anchor currency is itself issued by a central bank—and is not redeemable. To turn Schuler's question around: Should Developed Countries Have Central Banks?

The history of central banking does not reveal a brilliant track record.[4] Political money has always had its problems. As Kevin Dowd has chronicled, it is a story leading up to the Great Depression, followed by the Great Inflation. Dowd ruled that central banks contribute to monetary instability. At least in East Asia, that conclusion was confirmed. So where do we go from here? The globalized world economy needs good money. Europe has gone in for a super central bank issuing a single European currency—against the advice of Hayek.[5] There are those who are looking ahead to perhaps a world central bank issuing a global currency.

These ideas are extremely dangerous. When the monopoly is undeserved, it should be discontinued. There is no question of extending the privilege to cover the entire world. We cannot have so powerful a body. And we cannot take the risk of global inflation and other monetary disturbances by installing a system that simply does not know the answer to the question: How much money can I issue?

[4]Dowd, K., *The State and the Monetary System,* St. Martin's Press, New York, 1989, Chapter 6.

[5]Hayek, F.A., 'The Denationalisation of Money—The Argument Refined', in *Economic Freedom,* Basil Blackwell, London, 1991. See also, 'Market Standards for Money' and 'Choice in Currency: A Way to Stop Inflation', in the same volume.

The era of irredeemable paper has to end. And the way to end it is by ending central banking, freeing private banking and making currencies compete for customers. As Kevin Dowd puts it, there is no reason to treat either money or the industry that supplies it—banking—as any different from any other industry, and hence deserving of anything other than the free competitive process we apply to the rest of the economy.

THE DEATH OF KEYNESIANISM AND THE FUTURE OF MONEY

The question of the future of money and how the globalized world economy can have quality currency has agitated many minds, not the least of them a prominent Indian central banker, Dr I.G. Patel. In Lord Meghnad Desai's volume *Global Governance,* Dr Patel has a contribution entitled: 'Global Economic Governance: Some Thoughts on Our Current Discontents'. This speaks of strengthening institutions like the IMF and World Bank. Well, that is one way to go. But there are dangers. In the same volume, Lord Desai has an article eponymously titled 'Global Governance', which starts by finding the modern world possessing four characteristics: post-mural (referring to the post-Cold War era); post-imperial; post-Keynesian; and post-industrial. The danger posed by a higher order of central banking—higher, that is, than the nation state—is explicit in one sentence that appears towards the end of the section titled 'Post-Keynesian':

> There is still the possibility that Keynesian demand management policies may work at the multinational level, for example at the European Community level, but this requires a much stronger governance mechanism than we have found so far.[6]

This sentence reveals two dangers. One, the revival of Keynesianism on a much larger scale. And two, 'stronger governance mechanisms' to sustain that Keynesianism. But what is Keynesianism?

John Maynard Keynes was an economist who believed that money should be issued monopolistically by the state. He believed that money was a creature of the state, and that legal tender laws were justified.

[6]Desai, M., 'Global Governance', in *Global Governance,* Pinter, London, 1995, p. 9.

His theories must be judged from this particular viewpoint. Applying this viewpoint to economics, Keynes argued that a policy governing the quantity of money issued could be used to combat recession and unemployment in conditions of depression. (This depression was caused, in the first place, by states interfering with private banking and monopolizing money issue.) In a depression, no one would invest money, even if the rate of interest was zero, because there would be no demand. The solution, Keynes said, was for the state to spend by going into deficits. 'Dig holes and fill them up' were his famous words. That will cure unemployment.

This is a fallacy. It attempts a short-term cure without looking at the cause of the disease: state interference in the monetary system. Employment is not created by digging holes and filling them up. Rather, the quantity of money is increased and there is inflation in the long term. Keynes did not care. He said: 'In the long run we are all dead.'

After Keynes, his followers invented the Phillips curve and attempted to 'trade off' inflation with unemployment, That is, there would be econometrists mathematically plotting various variables on various charts. These variables would include inflation, unemployment and quantities of various 'kinds' of money. These econometrists would then arrive at a correct decision on how much inflation to create in order to reduce a certain amount of unemployment. More money issue means more inflation and less unemployment. If inflation went too high then the central bank would order monetary contraction, and the economy would tolerate a little more unemployment. This was called 'fine-tuning'. It is actually a whole lot of bull—to use the favourite expression of Big Daddy from *Cat on a Hot Tin Roof*. As Hayek said, inflation causes unemployment; it does not cure it. The cure to inflation is currency competition, he added. People would naturally choose currencies that are stable in value. This would be the incentive for private bankers to provide currencies of stable value, pegged to some monetary standard.[7]

And there is the other way—free money. That is the choice the world faces. One thing is clear: central banking in developing countries has been a proven failure.[8] This brings the institution of political

[7]See Hayek, op. cit.
[8]See Schuler, op. cit.

money into disrepute. Mono-polistic issue of irredeemable currency on a global scale will be catastrophic, to say the least. We must save our children from such a fate. May inflation never rear its head again, third millennium onwards.

Quite naturally, if we abolish central banking, there will be no 'lender of last resort'. If a bank goes bankrupt, it will have to simply fold up and die. What about runs on private banks? Will they not be unstable in the extreme? What are the safety features in the free banking system? Let us turn to these issues.

BANK RUNS UNDER FREE BANKING

Banks face what is called the 'illiquidity risk' because they all keep fractional reserves. *This does not imply that the bank is insolvent,* it is just that its assets are tied up and it cannot generate enough liquid funds if suddenly called upon to cough up a huge amount. Thus, it is said, a free-banking system will witness many 'runs' on banks. As there will be no central bank as 'lender of last resort', there will be no deposit insurance. This argument is countered by pointing out that bankers take more uncalled for risks when they know there is a 'lender of last resort'. This is known as the 'moral hazard problem'. When incentives are designed to elicit perverse behaviour, there is a moral hazard. In this case, the lender of last resort gives bankers the perverse incentive to take excessive risks. (So when the IMF wants to be the globe's lender of last resort, the entire earth's bankers face a moral hazard.)

Granted that bankers will avoid unnecessary risks when there is no lender of last resort; but the question remains as to what a free-banking system will do to handle runs. Runs can be of two types: deposit runs and note runs. A deposit run occurs when all the bank's depositors rush to the bank to redeem their deposits in notes. Let us suppose that every customer with money deposited in a particular bank comes forward to withdraw his entire holding. The customers want money—notes. But this is not a note run—where all note holders approach the bank simultaneously to get specie—like gold—for their notes. This is the critical difference between a deposit run and a note run. In a deposit run, customers want to convert one kind of bank liability (deposits) into another (notes). In a note run, they want assets which lie outside the banking system in exchange for their

notes. A deposit run could become a note run at a later stage. Let us see how a free-banking regime would handle such crises.

First the deposit run. This is the most common type of run in banking history. Central banking regimes, faced with a deposit run on a particular bank (or the entire system), would have to perform lender of last resort functions. Free banking does better than that. (Remember the free bank can issue its own notes.) In free banking, banks are able to create liquidity at will—and this ability ensures stability. All that a bank does is convert one type of liability (deposits) into another (notes).

That is, a bank's balance sheet shows assets and liabilities. The latter include both notes and deposits. When there is a deposit run, all that the bank has to do is issue notes to its customers. In the process, the bank's accountants reduce the bank's liabilities on account of deposits and increase the bank's liabilities on account of notes. The run is automatically taken care of. 'But what if all these note-holders now approach the bank to convert their notes into specie?' is the question every reader will ask.

Free-banking theorists easily solve this problem. But remember, we are speaking about a system that was not allowed to evolve naturally. *We are trying to imagine how it would have evolved.* Free-banking theorists have studied how, during short periods of free banking in the past (England, Scotland, USA and Canada), banks handled liquidity crises. From the study of past behaviour, predictions can be made as to how a mature free-banking system would handle such crises in the future. These predictions are then taken as recommendations.

One such recommendation widely accepted is the 'option clause'. That is, the bank would have the option to defer redemption for a pre-specified period for a pre-specified penal rate of interest. The word 'penal' must be noted. It is inserted into the option clause to prevent banks from suspending convertibility unless absolutely necessary. Now, in the event of a note run, the bank would have time to rearrange its portfolio—call back loans, borrow from other banks, etc.—in order to meet its obligations.

Will the public accept notes with option clauses? Dowd offers three reasons why they will:

- Notes with option clauses would still be acceptable when banks suspend convertibility. Fully convertible notes without this

clause would not be acceptable when banks suspend. Note holders, therefore, may prefer holding notes with option clauses.

- The option clause protects the note holder who is not sure of being first in line when a note run occurs. If he knows that if and when a note run does occur, he can still get his note redeemed for specie at a future date, he may prefer such notes.
- Suspensions are less likely to occur if bank notes have option clauses because speculators would be quite unwilling to bet against a bank.

Parth J. Shah has recently argued for a 'comprehensive option clause' that makes much more sense than earlier versions. This would allow banks to convert not into specie but into notes of other banks acceptable to the public. This immediately brings in third parties into the scenario: other banks and the clearing house. As Shah says:

> The comprehensive option clause is also incentive compatible.... It necessitates intervention and verification by third parties to solve the problem of redemption between the bank and its customers. The comprehensive clause would not have to be printed on notes; it could simply be included in the bank's charter.... A crucial element in the comprehensive clause is clearing house. *Even under a mature free-banking system, noteholders and depositors would find it difficult to distinguish between illiquidity and insolvency confronting a bank. Reputable third parties could help customers distinguish between these problems.* Clearing houses are obvious candidates since they are the most likely third parties to possess the necessary information about the bank in trouble. (Citing the evidence)...clearing houses in the recent past have engaged in 'the joint production of confidence' by providing guarantees, loans and their own currencies (certificates). Clearing houses, however, would not be the sole source of information in a mature free-banking system. Bank-rating agencies which would render overall 'soundness rating' of banks, or agencies rating banks' ability to redeem their liabilities—'liquidity rating'—would also provide independent information to the banks' customers. *The issue of liquidity crisis arises only in a system with directly convertible notes, convertible either on demand or with deferment. The alternative system of 'indirect convertibility' obviously avoids the whole problem.*[9]

[9]Shah, P.J., 'The Option Clause in Free-Banking Theory and History: A Reappraisal', *Review of Austrian Economics,* 10, No. 2, 1997, pp. 21-2 (emphasis added).

Shah concludes that rather than the traditional option clause, a modified comprehensive option clause, clearing house guarantees and certificates, and a system with indirect convertibility provide the most 'suitable mechanisms and arrangements'.

This 'indirect convertibility'—offering notes of any other bank acceptable to the public—does not in any way reduce the note-holder's ability to ultimately redeem his notes. He gets notes of a bank that is not facing liquidity crisis. He can continue to hold his notes or redeem them: that is his free choice. The main thing is that there is no 'contagion'. One bank's crisis does not make the entire system collapse.

Shah rightly stresses the role of clearing houses. It must be noted that clearing houses evolved spontaneously under free-banking. Central banks simply took over from them. They came up to 'clear' the notes (and cheques) of various banks against each other. In a system of free-banking, clearing houses would naturally emerge and the state is not required to handle the banking industry's clearings.

THE EMASCULATION OF PRIVATE BANKERS

Having seen that free banking can easily take care of deposit runs as well as note runs, let us list the measures taken by central bankers which have effectively nullified the ability of banks to tide over such situations on their own. They are:

- restrictions on note issue;
- restrictions on bank activities;
- state-sponsored liability insurance schemes to which banks are forced to subscribe;
- states using the banking system to raise revenues for their own purposes; and
- lender of last resort functions, which effectively allow bankers to take excessive risks in the knowledge that the central bank (or its big brother, the IMF) will step in if things get out of hand. Thailand and Indonesia in recent times showed examples of such banking.

The purpose of this essay is to introduce the reader to the concepts of free money and free banking and show that they are workable, practical

and even preferable. There is a considerable amount of research going on concerning the steps that any country that wishes to go in for free money will have to take, and what the rest of the world will have to do to adjust to this. Dowd suggests 'offshore' free banking for some time which will enable domestic banking to learn about free banking and see how it functions before they are also privatized and let free. There are also various models of free banking available.[10]

To conclude this discussion, a few words from Hayek:

> The past instability of the market economy is the consequence of the exclusion of the most important regulator of the market mechanism, money, from itself being regulated by the market process.[11]

That is, depressions and inflations—monetary instability—have been caused by statal interference. The solution to the monetary policy issue is to have none whatsoever. Irredeemable political money is an economic evil. And allowing politicians to decide the price level is extremely harmful to economic well-being. Money is a product like any other. Banking—the industry that supplies money—is an industry like any other. The standards of freedom and competition which apply to any other industry should also be applied to banking. Then, the third millennium onwards, the global economy will finally have money that is truly worth the amount printed on it.

CLOSING DOWN THE IMF

Indeed, the word is already out. The collapse of the Russian rouble —coming close on the heels of the East Asian currency crisis—raised many doubts about the world monetary system dominated by the Bretton Woods twins. Anna Schwartz has come out strongly against the IMF, urging that it be shut down since its bail-outs have been disasters. She adds:

> The countries in Asia that are experiencing financial problems will either adopt measures to reform their banking systems, to eliminate political domination of credit allocation, and to earn restoration of their

[10]Sechrest, L.J., *Free Banking: Theory, History, and a Laissez-Faire Model*, Quorum Books, London, 1993.
[11]Hayek, F.A., op. cit.

> creditworthiness in international capital markets—or they will not. To do so requires political resolve, not the IMF. Not to do so means those countries will fail to grow out of their problems. The world financial system will not be undermined if the IMF does not bail out those countries.[12]

It is time we believed in 'self-help'—the greatest of all free-market virtues—and restored order in our financial system. Today, our finance ministers are asking for a stronger IMF to bail them out when the time comes. There are prominent voices saying that US taxpayers cannot take responsibility for the lapses of Third-World finance ministries.

At the same time, there are reasons to believe that monetary policy will become impossible in the 21st century because of the rise of electronic and other kinds of money and the consequent decline in the demand for central bank notes.[13] Dowd suggests that the best option is to make all notes convertible—just as they once were, into gold or some other asset, even index-based financial derivatives. This is yet untried, but it is asset-based money.

In the circumstance that all government papers were made convertible, there would be no reason to retain money as a state monopoly. Private banks should be free to issue their own convertible currencies. Currency competition would ensure price stability—because people would choose money of stable value. Price stability would ensure steady growth, and an end to the cyclical nature of the world economy. The creditworthy would get credit and private bankers —not central planners—would oversee the progress of the world economy.

STATE MONEY AND DEMOCRATIC VALUES

With private money, democratic governments would become truly 'democratic'. The rallying cry of democrats throughout history has been 'No taxation without representation'. Democrats must always truly and faithfully represent their taxpayers. Therefore, they must

[12]Schwartz, A.J., 'Scuttle the IMF', *The Journal of Commerce*, 4, September 1998.

[13]Dowd, K., 'Monetary Policy in the 21st Century: An Impossible Task?', *The Cato Journal*, Vol. 17, No. 3, 1998.

be always dependent upon them for revenue. When democratic governments acquire the ability to produce money out of a hat, they cease to be truly representative of taxpayer interests. They represent those who live off the excess money. And this destroys the money. Governments should have nothing to do with credit at all. It is primarily in this area that we should always remember Frederic Bastiat, who said that democratic socialism was based on the principle: 'The Infallibility of the Legislator.' It is in the management of money and credit that these legislators have failed most miserably. This must be taken out of their hands. We live in a world of failed states: all the governments of the Third World and the former communist bloc. These governments cannot regulate traffic properly, and their police forces do not look after the citizenry. How can these states be allowed to monopolistically issue currency?

Sound money must be seen to be a fundamental right—equal to all our other rights. The only sound money is that which is redeemable. Private bankers are quite capable of producing such money, and when people freely choose money, they will naturally opt for those monies issued by the most solid banks. Some people believe that this will force banks to opt for 100 per cent reserves against money. Nobody will accept money unless he knows that it is 100 per cent backed; transparency on bank reserves will inform people; only sound money will survive. People will opt for 100 per cent backed money because otherwise they will feel they are extending credit to a bank: and they will not extend this credit. Remember, when we accept notes from a central banker that are not fully backed, we are in effect extending credit to that banker. In a world of private money, this credit will not be extended to bankers, some believe.

Free banking is the answer to the failed Bretton Woods twins. The world needs sound money for free trade. It always had gold. Free banking will surely lead to a re-monetization of gold and silver, moneys which people feel safest with. Currency collapses, inflations, deflations, depressions: all these will forever end. They came to plague us, after all, only when governments took to printing paper money. As Sherlock Holmes said: When you have ruled out the impossible, whatever remains, however improbable, is the truth. When currencies collapse, it does not mean that the people of that country have collapsed. They were still going about their business, producing

wealth. The fault does not lie in the people. It lies in the money. Who prints the money? That's the question. Private money is the solution. When everyone can print money, no one will accept money that is not rock solid. Gold and silver will make a dramatic return. And the power of governments to fund clients, wars and mammoth 'schemes' will be reduced to zero. They will be entirely dependent on taxpayers. Most importantly, the world will see steady, uninterrupted growth. The entire developing world will prosper.

9. GOVERNMENT!

—or How to administer the minimalist state

> Government as supplier has proved to be the enemy of the people; in the market competing suppliers are its friends against the rogue elephants.
>
> *—Arthur Seldon*
> *The State is Rolling Back*

On the face of it, the philosophy of liberty and free market is quite close to anarchism, which means 'no ruler'. To believe in liberty, as Bastiat said, is to believe in God and His creation, Man. Man is assuredly trustworthier than the state! And a highly-evolved species such as Man surely does not need rulers. The essence of democracy is, after all, that we rule ourselves. Even Thomas Hobbes, in *Leviathan*, said that there is no man who would not rather rule himself.[1] Liberalism does seem to have a nasty subversive side to it. It is inevitable that those who speak the philosophy of freedom do so against their governments.

The question then arises: What do we need governments for? First, let us assert what we do *not* need governments for. We do not need governments to rule over us. What we need are some public services, and some public goods. The case for public enterprise falls flat in a country wherein public goods have been undersupplied—because resources have been diverted from these to losing public

[1]This is ironical, because *Leviathan* established the liberal case for a state—to rescue us from anarchy, the state of nature, in which there would be a war of all against all.

enterprises. The predatory state cannot be allowed to engage in commerce with taxpayers' money.

Public goods are those that we consume together. Since we cannot exclude anyone from consuming these, public goods cannot be priced and sold. These include justice, law and order, defence and roads. Highways are excluded; the market would certainly be able to supply us better highways than any state ever can. In the old days, lighthouses were mentioned in economics textbooks as public goods. Economists are more circumspect when listing public goods today. The reason being that the listing of public goods can be carried to an extreme: for example, if we list 'beauty' as a public good, lipstick should be subsidized. Or, if you list 'clean air' as a public good, then deodorants should be distributed free! It must be mentioned that money is not a public good. Nor are electricity, phones, education, railways, petrol, gas and healthcare. Preventive civic hygiene is a public good, which requires some public services—garbage removal, sewerage, vaccinations and the like. How should these public goods and public services be supplied?

THE PITFALLS OF BUREAUCRATIC ORGANIZATION

The philosophy of the market does posit a public administration. This is now a highly evolved area of research. Free marketeers do have ways of seeing public goods and services delivered, using principles of market economics—like competition. Hence, we do not just speak of freedom; we also discuss the core issue: public administration.

So far in India, public administration has been carried out by the bureaucratic method of organization. The Indian Administrative Service is at the top of an entire clutch of central government and state-level organizations. It is a descendant of the Indian Civil Service, which itself arose from the covenanted service of the East India Company. The Company's service had all the characteristics of bureaucracy: promotion was strictly by seniority; and hierarchy was paramount. Recruits had to prove intellectual competence; standards were high. It was also essential that they were 'gentlemen'; and this gave Indian bureaucracy its elite position. This position was earned the hard way, through hard work—which has, unfortunately, now been lost.

Bureaucracy, if we go by the typology set by Max Weber, has four essential characteristics, best remembered through the acronym HICE: Hierarchy; Impersonality; Career; and Expertise. Indian bureaucracy has lost the social respect it once commanded simply because it has failed on the count of Expertise. It practiced something called 'generalism' with great gusto—which only ensures that politicians can transfer officials willy-nilly. But experts in homicide cannot be shifted to traffic management! Thus, in a country where politicians usually represent illiterates, where knowledge could enter government only through merit-based bureaucrats, the Government of India has become a government by ignorance. Proof exists on the streets of India, where traffic management has never been attempted simply because the knowledge to do so does not exist with the state. India Gate is probably the most unsafe roundabout in the world!

Max Weber laid great store by bureaucracy as an organizational form that could achieve excellent results. But he was not unaware of its limitations. He warned that bureaucrats could not be relied upon to provide leadership—which had to be left to charismatic politicians. The bureaucrat was a *kleber*,[2] he said, using the German word for 'sticky' or 'gluey'. That is, the bureaucrat would stick to his chair, refusing to take bold decisions. To him the chair was all important. A politician is more likely to resign on a major point of difference and make the matter public. This is important for democracy. Thus, good politicians are essential. Bureaucrats cannot deliver on their own because they are followers, not leaders.

There have been some prominent critics of bureaucratic organization, foremost among them the Austrian economist, Ludwig von Mises. He said that there are two ways of conducting 'peaceful co-operation amongst men'. One is bureaucratic management; the other is profit management. Some things—like police forces, courts and tax-collecting bureaus—need to be bureaucratic. The rest do not. It would be better to confine bureaucracies to just these subjects, and not stretch it to areas where management for profit can deliver better. The most important point Mises made was that bureaucracies are graveyards for talented youth, who sacrifice themselves for their seniors:

[2]Weber, M., 'Parliament and Government in a Reconstructed Germany', in *Economy and Society*, Part 2, University of California Press, Berkeley, 1968.

> It is evident that youth is the first victim of the trend toward bureaucratization. The young men are deprived of any opportunity to shape their own fate. For them there is no chance left. They are, in fact, 'lost generations' for they lack the most precious right of every rising generation, the right to contribute something new to the old inventory of civilization.... What are young people to whom nothing is left to change and to improve? Whose only prospect is to start at the lowest rung of the bureaucratic ladder and to climb slowly in strict observance of the rules formulated by older superiors? Seen from their viewpoint bureaucratization means subjection of the young to the domination of the old.[3]

But the greatest challenge to bureaucracy came from public choice theory, when it borrowed the tools of economics for political science, thus creating the New Political Economy. The essential assumption in free-market economics is that every human being is 'rational' in a self-interested way. That is, we prefer gains to losses. Implication: incentives matter. Incentives create society. Public choice theory applied this assumption to political science: what if the personnel of the state—politicians and bureaucrats—are examined under the assumption that they too are all looking for their own gain. What are the deductions that follow from such an assumption? And do these resemble reality? So far, especially in socialist countries like India, the assumption has always been that the state and its personnel dedicatedly work for public benefit. They are powerful and they hold onto these powers because it is assumed that the state is benevolent. What if this crucial assumption is dropped?

William Niskanen placed before the world an elegant proof[4] that said that bureaucrats would be primarily interested in maximizing the budgets of their bureaus: bureaucrats are budget maximizers. Just as consumers maximize utility and businessmen maximize profits, bureaucrats maximize budgets.

TACKLING MOUNTING BUDGETS

This came at a time when attention was being paid to the size of government budgets, which had been exploding to meet the demands

[3]Mises, L., *Bureaucracy,* Center for Futures Education, Cedar Falls, 1983, p. 97 (first published, 1944).

[4]Niskanen, W., *Bureaucracy: Servant or Master,* Institute for Economic Affairs, London, 1973.

of the post-War welfare state. Much of welfare was supplied through bureaucratic organization. There was a lot of academic literature looking into the phenomenon of government expansion. Niskanen's theory proved to be a key weapon in the armoury of those who wanted budget deficits curtailed. Public choice theory had arrived.

In India, most people are aware of public choice theory without knowing it. Anthony Jay's television series, *Yes, Minister,* was a great hit in India. It was a serial inspired by public choice theory and showed the self-interested nature of bureaucrats and politicians. The Minister for Administrative Reforms could not succeed in cutting down the size of his bureaucracy, thanks to the roadblocks put in his way by that arch bureaucrat, Sir Humphrey. Of course, Sir Humphrey's transgressions were mild, and vastly amusing. Self-interested behaviour on the part of bureaucrats and politicians in statist economies in Third World countries is much uglier.

Public choice theory began to make waves about the time that monetarism rose above Keynesianism. This was when budget deficits began to be taken seriously and political will was exerted, backed by academic as well as public opinion, to cut down wasteful expenditure in government. For this purpose a new public administration was invented: New Public Management, better known as NPM.

Public administration takes a very close look at what is happening in its sister subject: Management. Change was in the air in the world of business, and this served to inspire NPM.

Giant corporations were slowly becoming 'hollow'. Major toy, athletic footwear and various other kinds of corporations were no longer vertically integrated. Design and marketing were centralized in a small office in New York, while manufacturing was being contracted out to various parties all over the developing world—especially East Asia. Publishing firms were following suit. They would do proof-reading and editing at home, leaving labour-intensive typesetting and printing to contracted parties in Singapore. The question therefore arose: Like the hollow corporations, can we not get a hollow state? Just as corporations were contracting out their work, could not bureaucracies be replaced by public service managers whose task would be to invite bids, make out contracts, enforce these contracts, ensure that the service has been delivered according to the terms of the contract—and that is all. The state should not

produce services on its own. It must get things done through the market. There are certain advantages to this approach.

Let us take, for instance, garbage collection. Today a municipal bureaucracy does it. The head of this bureau has an entire retinue of staff and equipment to deliver this service. As demand for these services rises, his budget rises; but service delivery remains abysmal. This is an important area, because public health is directly affected.

There is a certain deficiency in this bureaucratic approach which becomes clear when we examine the work that is done by the bureau chief. He spends most of his time processing 'inputs' to his bureau: recruitment, leave, disciplinary matters, purchase of equipment, etc. He will, therefore, have little time to spend on the 'output' of his bureau: to see that the town is actually getting cleaned.

It is not very intelligent to spend public money in such a way that there is no relation between costs and benefits—since the output is not 'sold'. Things are much worse when, over and above the fact that there is no relationship between cost and benefit, the actual performance of the task is not monitored effectively by the bureau chief.

This bureau does not sell its output—cleanliness. In this method of bureaucratic delivery, there cannot be any relation derived between cost and benefits. There is no answer to the question: Is this expenditure worth it? If there has to be an answer to this question, there must be some way of monitoring output: to quantify cleanliness. This cannot happen where the head of the bureau is burdened with bureau inputs. When he cannot and does not monitor output, the question 'Is this worth it?', is totally unanswerable.

THE NEW PUBLIC MANAGEMENT

Enter New Public Management. It would prescribe 'contracting out'. The bureau chief's work would now consist of identifying the work to be done; stating how it should be carried out; advertising for bids; drawing up contracts; and supervising the work to ensure that it is being performed as per contract. This approach brings in the market. There would emerge firms who would compete to perform the task, making them cost-conscious. Not only would expenditure lessen; service delivery would improve remarkably.

The literature on NPM is vast and varied. There are government documents—like 'Government Management' by the New Zealand Treasury, the first country to take to NPM. There is also *Reinventing Government* by Osborne and Gaebler,[5] to which Bill Clinton has pinned a laudatory note: 'this is the blueprint.' Clinton being a Democrat, NPM easily crosses the left-right divide.

Over the years it has become possible to identify the basic thrust areas of NPM and thereby list its essential principles. According to one study,[6] these are:

1. *Separating 'provision' from 'production':* This is the logic of 'contracting out'. It has various advantages, chief among them being the fact that it separates 'steerers' from 'rowers'. Politicians and bureaucrats steer; managers manage and row.
2. *Serving consumers:* The idea is that public services are in demand. So it is in the interest of the bureau to serve its customers.
3. *Market pricing rather than taxes:* This makes bureaus serve customers better.
4. *Clean subsidies:* Subsidies, if any, should be clearly worked out—and should reach targeted groups directly, without affecting other prices.
5. *Extending competition:* When work is to be bid for between competing firms, the most cost-effective outcome is likely to emerge.
6. *Decentralizing provision:* This is in line with the principle of 'subsidiarity' which says that provisioning should be left to the lowest rung of government that can effectively look after it. If a municipality can do it, let it. If not, it goes to the higher level; and if they cannot handle it, only then does the work devolve upon the national government. The European Union recognizes this principle.

[5]Osborne, D. and Gaebler, T., *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector, from Schoolhouse to Statehouse, City Hall to the Pentagon,* Prentice-Hall of India, New Delhi, 1992.
[6]Foster, C.D. and Plowden, F.J., *The State Under Stress,* Open University Press, Buckingham, 1996.

7. *Empowering communities:* This will ensure that citizens are capable of responding to the need for public services in innovative and cost-effective ways.
8. *Deregulation:* This will end the domination of the rule-bound red tapism of bureaucracy—a major hindrance to progress.

The literature on the spread of NPM ideas is extensive. A volume entitled *New Public Managers in Europe: Public Servants in Transition*[7] talks of how a 'professional synthesis' can take place between public and private managers. It looks at the core competencies of the new public managers and tries to show how they are indeed in 'transition'. There are reports of NPM work in Belgium, Britain, Finland, France, Germany, Ireland, Italy, Holland and Spain. NPM is a worldwide movement, and we should join it. The bureaucratic system with which we continue is wholly incapable of coping with today's stresses, let alone delivering in the next century—when India should once again be called a 'developed' country, and not considered among the deformed, poor, misgoverned and handicapped nations of the world: the kind in need of 'aid'.

It is necessary to warn the reader that there is nothing 'correct' about NPM. In public administration, as in management, there are innumerable ways of organizing the same thing—and there are various ways of justifying each of them. For example: recruitment. Some would say pay recruits very well, so that they remain honest. Others would say pay them low wages, so only those who are not interested in the money—but believe in the cause—will turn up. The first doctrine may prove useful to Lee Kwan Yew when recruiting bureaucrats for Singapore; the second may prove useful to recruit nuns for the Missionaries of Charity.

Christopher Hood and Michael Jackson have produced a remarkable study[8] of 'administrative doctrines' which shows how a 'correct' or 'scientific' administration can never arise; and that the better approach is to 'map' all the doctrines we have today. In public administration, for many decades, the approach had been 'positivist'—to make it 'scientific'—in tune with the ideas advocated in the 1950s

[7]Farnham, D. et al. (eds.), Macmillan Business, London, 1996.
[8]Hood, C. and Jackson, M., *Administrative Argument,* Dartmouth, Aldershot, 1991.

by the Nobel laureate, Herbert Simon. Hood and Jackson, in this book, show an alternative and extremely useful approach: creating a 'map' of all the doctrines, thereby laying out a set of 'keys' to unlock any administrative riddle. They also look at a German movement in public administration called 'Cameralism', and show how it has many features in common with NPM. Cameralism took its name from the chamber in which taxes were pooled, and referred to proper management of this money as the key to good state government. It spoke of an 'administrative technology' quite like NPM does today. NPM is very different from cameralism, of course, but Hood and Jackson point out that where they really appear alike is in their 'packaging'. Both NPM and cameralism appeal to an 'acceptance factor'. Hood and Jackson discuss the 'keys to persuasion' and why administrative fads occur.

It could well be that NPM is just a passing fad. But when one is governed by predatory, kleptocratic states, hollowing out seems the only viable option. When we map administrative doctrines, we obtain a set of keys to any administrative riddle. Our problem is a huge kleptocratic state that is not delivering public services satisfactorily. NPM provides us the specific set of keys needed to unlock this administrative riddle and deliver unto us the public services we so badly need.

RUNNING OUR URBAN AREAS WITH NPM

The basic advantage is that, with a few good people, every town and city in India could enjoy the best public services at low cost. The budget would not be strained and there would be no huge bureaucracies to support at public expense.

The aim is to give urban areas the governments they sorely need, since it is here that population is dense and wealth generated. Here, every problem is more acute, and hence cities and towns require the most attention. Since time immemorial, cities and towns have been the basic locus of government. In our country, this is not so. The IAS are primarily 'district' administrators. Every district contains a dozen odd towns, the largest being the district headquarters. Each of these towns is on the verge of collapse while our administrators are busy looking after the 'development' of villages! These administrators, being 'generalists', happily flit into urban governance and attempt to

manage bustling metropolises with the same village mentality. This is completely unlike Britain, where 'generalists' are restricted to the departments of Whitehall and local governments freely hire expertise. Further, British 'generalists' stay at least three years in each department and do not go through more than four or five departments in an entire career. This cannot be said about Indian generalism.

One defence of generalism goes: We are actually specialists in administration. However, when one probes deep into the precise meaning of 'administration', it surfaces that by it, generalists wish to convey that they are specialists in the *art* of 'handling' ministers and helping ministers handle parliament. They are specialists in the art of 'delicate handling'! Indeed, I was surprised to discover that Britain's senior bureaucracy, by constitutional law, exists solely to 'serve' ministers—not the people, nor the law! A frightening thought in a predatory state.

RETRAINING THE IAS

If India decides that NPM practices should be implemented, all that is required is to retrain the bureaucracy. This should not be difficult at all. They are selected through a process that tests their ability to absorb new subjects. They have passed a stiff test of intellectual competence and they must be forced to prove that they possess this competence. This then is the challenge. There is hope in that herein lies the state's intellect. If this intellect is challenged, it is bound to deliver. When it is proved that the entire ideological apparatus of the state is false, the intellect of the state will have no choice but to re-educate itself. A healthy dose of liberal economics and political science, followed by lectures on free-market public administration, should get the new show on the road. This involves a harking back to old times. Prof. Ambirajan, whose column 'View From the Periphery' I always enjoy reading in the *Economic Times*, has produced an exhaustive study of the intellectual inputs that went into the training of bureaucrats in the days of the Raj.[9] To wit:

> Most of the important administrators in India, including the Governors-General and Viceroys, had a knowledge of at least Adam Smith and, in

[9]Ambirajan, S., *Classical Political Economy and British Policy in India,* Cambridge University Press, London, 1978, pp. 11-14.

> the latter part of the nineteenth century, of John Stuart Mill as well. In their letters (both official and private) and in their memoranda, minutes and despatches, the names of economists appeared frequently. Statesmen and rulers like Bentinck, Elphinstone, Ellenborough, Northbrook, Lytton, Ripon and many others gave evidence in their correspondence of their having read Smith, Mill or Ricardo.... Not only did the future civil servants receive sound coaching in political economy, but they were also able, while in India, to keep themselves informed of the latest developments in the discipline. In the capital cities such as Calcutta, Bombay and Madras, literary associations were formed, libraries were established and journals were run by enthusiastic civil servants. In the interior, they were well served by the regimental book clubs....

Looking into decisions actually taken in the fields of usury regulation, rural indebtedness, tenancy legislation, famine relief, land revenue, taxation and public works, Ambirajan concludes that every sincere attempt was made to do what classical political economy demanded. The officials encouraged individual initiative, free trade and intervened in the setting up of public works like canals and railways. Ambirajan draws up a table illustrating the 'ideals' of the administrators.[10]

Policy	*Ideals*
Colonial policy	Free flow of resources. India to form part of the international division of labour.
Famine policy	Market left free to allocate scarce food resources.
Economic relations	Free trade. Individuals free to buy and sell services. No labour market rigidities.
Taxation	Minimum interference with resource allocation through fiscal measures affecting relative prices.
Land revenue	Absorption of rent defined in Malthusian or Ricardian terms, for the maintenance of the public sector without 'real cost' to society.
Economic development	Progress through individual enterprise. Provision of appropriate institutional structure, including: public goods; currency system; a legal system; and a police system.

Thus, it appears obvious that the decline in India's bureaucratic system coincides with the end of its liberal underpinnings. These have to be

[10]Ibid., p. 269.

restored, and extended to areas such as NPM, which can help solve the gravest problems we face today in the delivery of public services.

This restoration of liberalism in India's bureaucratic system is vital. Today, what is taught as 'Indian Economics' in our universities; what is examined in 'Indian Economics' during the civil services examination; what is taught to bureaucrats in the National Academy of Administration—all is false. It is nothing but self-interested propaganda. It sustains all the false notions of socialism, especially in the area of 'development economics'. Quite obviously, if our bureaucrats have a false world-view with regard to 'economic development', no amount of 'development administration' is going to get us 'developed'.

A short essay like this is not intended to lay out a complete blueprint for an ideal system of government. The intention is to give the reader a glimpse into free-market public administration, which is not bureaucratic. It was also shown that the ancestors of the IAS were steeped in free-market political economy—so a drastic intellectual reorientation of our bureaucracy is called for.

Undoubtedly many agencies will remain 'bureaucratic'. Ludwig von Mises mentions police, revenue collectors and courts as examples of such organizations—because they do not and cannot sell their services. These apart, it is suggested here that all other public services be opened up using NPM—so as to impart an entrepreneurial spirit to the public sector. With contracting-out and user charges instead of taxes, public officials are forced to serve consumers efficiently and earn their keep.

There will also remain some 'regulatory' bodies. Many people believe that market forces should not be totally free, and that some kind of state regulation is required to ensure 'public interest'. Prof. Deepak Lal, in his B.R. Shenoy Memorial Lecture last year, blasted this thesis, saying it was the way 'towards a new dirigisme'. Freeing market forces does not necessarily mean that all markets have to be regulated. Some do. Most do not. Regulation should be minimal. And it should be participatory—to ensure the least transaction costs.[11] Indian regulation has been a marked failure. For example: civil

[11]Horn, M.J., *The Political Economy of Public Administration: Institutional Choice in the Public Sector,* Cambridge University Press, 1995.

aviation deregulation is a must. Telecom regulation has yet to prove itself; and if it cannot, we should completely deregulate.

CRITICS

We have now arrived at a point where we can say that we possess the rudiments of free-market government: the minimalist state, hollowed out. There are, of course, many critics of this idea, prominent among them being Prof. Peter Self of the London School of Economics and Political Science. Yet, Self does not condemn the market. He understands that its efficiency is 'celebrated'.[12] But he does say that a lot can be done to improve the market system: for example, a tax on borrowing for financing takeovers would restrict such activities to cases where genuine economic efficiency is to be gained. Self also stresses the need for greater citizen participation in democracy. If citizens are apathetic to the policies with which they are ruled, nothing much can happen through the market mechanism alone.

Another critic is Hugh Stretton, who has put forward two specific arguments against public choice: the case for public goods and the case for public enterprise.[13] Undoubtedly, public goods can only be supplied by the collective—but let us not needlessly multiply them. And I do not think that the Indian state has any case for conducting public enterprise with taxpayers' money when it is obvious that we face an undersupply of public goods.

There is a public choice view which says that when government is a monopoly supplier of much wanted public goods and services, it will extract a surplus by undersupplying these goods—so as to confer special benefits upon special interest groups.[14] This is precisely India's story. In the circumstances, these critiques notwithstanding, hard-headed public choice theory must be applied here. The system must be radically altered, retrained and constrained to deliver. If the IAS seems reluctant or incapable, then NPM practitioners—the best in

[12]Self, P., *Government by the Market? The Politics of Public Choice,* Macmillan, London, 1993.

[13]Stretton, H. and Orchard, L., *Public Goods, Public Enterprise, Public Choice: Theoretical Foundations of the Contemporary Attack on Government,* Macmillan, London, 1994.

[14]Breton, A., *The Economic Theory of Representative Government,* Aldine, New York, 1974.

the world—should be hired for our cities and towns and IAS officers be made to learn from them.

The focus should be on urban areas. Development has to start here. India has over 400 towns and cities (see the long-distance phone codebook)—all of them on the verge of collapse. India is an urban disaster. Urban areas generate wealth and spread prosperity if well connected to settlements around. Fifty years of 'rural development' has been a colossal mistake. Properly administered urban areas means thinking of an India with 400 Singapores. That's prosperity for you! This requires a focus on institutions of local self-government and municipal organization. NPM, naturally, will come into play.

The retraining of India's bureaucracy in order to equip it with the descendants of classical political economy is essential for India's future. The end of socialism must mean an end to socialist training. This is already being attempted at the level of schools. Free-market economists have taken issue with organizations that publish state-approved economics textbooks, and have asked that they include elements of liberal political economy. These efforts have succeeded and now a new textbook is being prepared. If children are to be re-educated, why not our bureaucrats?

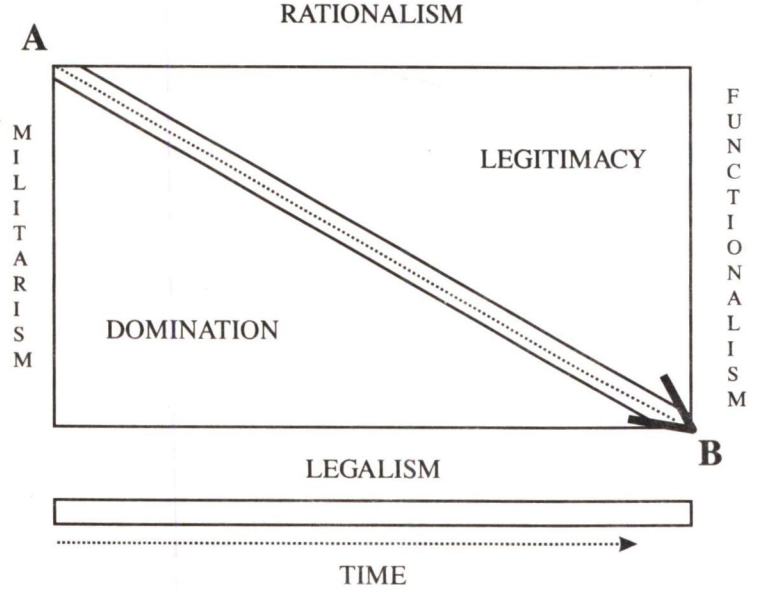
THE QUESTION OF LEGITIMACY

There is a basic reason why our bureaucracy must see their self-interest to lie in conversion. As Max Weber himself said, the state is an institution that 'dominates' society; he added that this 'domination' is sustained by a certain kind of 'legitimacy'. But when the intellectual standing of a bureaucratic service is lost, it can no longer dominate society. The answer is to seek new intellectual underpinnings.

Since Max Weber said that, various speculations have emerged on the exact nature of legitimacy. In a volume entitled *The Dynamics of Institutional Change*,[15] the Italian political scientist, Bruno Dente, identified two new kinds of legitimacy: 'clientelistic' and 'functional'. In the former, the effort of the state is to seek legitimacy by roping in as many hangers-on as possible onto the statal bandwagon. In the latter, it seeks legitimacy by performing 'functions' as efficiently as possible. We can unhesitatingly conclude that, so far, the effort of

[15]Dente, B. and Kjellberg, J. (eds.), London, 1998.

the Indian state has been to cultivate clients, and the bureaucracy was part of the clientele—another vested interest. Tomorrow, we need a state system that simply delivers specific services of specified quality. It is time the bureaucracy woke up to this fact: that just as everyone is earning money the hard way, so must they—by providing public goods and services and charging for them. The diagram given below seeks to combine the ideas of Weber and Dente and present what appears today to be the path on which the interaction between the forces of domination and legitimacy have propelled the state.



If we look at the history of the state as its progress from A to B, we can see that the manner in which it dominates society has changed, along with the manner in which it seeks legitimacy. At A, domination is totally militaristic; at B it is legalistic: the state's domination lies in the just laws it upholds.

Similarly, when we look into the nature of legitimacy, we see that, at A, the state sought legitimacy through 'irrational' means—usually by invoking God. The king was either God, or ruled in God's name. Simultaneously, there was very little 'functionalism'; and legitimacy was basically 'clientelistic': namely, the 'nobility'. By the time we

reach B, all has changed. Functional legitimacy is all that the state can hope for, and this is based on pure 'rationalism'.

This has not happened in our region yet. Irrational methods of securing legitimacy are common practice in South Asia. Clientelism rules. Functions are not performed. This is a recipe for disaster.

The basic function of any administration is to look after property rights. In India, we do not have these rights by the constitution that we wrote, but old British laws like the Indian Penal Code were designed to protect property. To protect property rights, sound records relating to ownership must exist. Here, these are totally haphazard. Buying land in India is a tortuous and hazardous process; cheating is common. The greatest cause of violent crime in rural India is 'property disputes'. Civil servants are very keen on identity records—that each citizen carry an ID card—but they are quite happy to let the land record question lie. Many years ago, a Five-Year Plan document promised good land records; but that promise is yet to be fulfilled:

> A systematic programme would be taken up for *compilation*/upgradation of land records to be phased for completion within a period of 5 years, i.e., 1980–85. In states where the *backlog is heavy*...[16]

I do believe that if the bureaucracy delivers good land records, if legislators repeal laws against property rights (like rent control and land ceilings), and if the courts system is invested in and expanded such that justice is quick in coming, the market will do the rest and make India prosperous once again.

A smaller, sleeker government that performs its functions effectively and efficiently and invests in public goods while leaving the rest to individual initiative will promote a healthy and wealthy society—where hard work, honesty, knowledge, prudence and fellow-feeling will thrive. The government we have today is the very opposite —a sponsor of innumerable economic and political evils. These evils have created a favour-seeking entrepreneurial class, a corrupt, ignorant and ineffective administrative class—and all round poverty and human degradation. Reforms are underway, but they are not enough. What I would like to see happening is radical, revolutionary change.

[16]Sixth Five Year Plan Document, p. 115, para 9.100 (iii) (emphasis added).

There is no time to waste on gradualism. We are one of the world's most backward and poor regions. Our tremendous human wealth—our population, that is, you and me and the rest of us—cannot achieve its full potential only because of the policies of our ruling class. They, in turn, view us as the problem: the population problem. It is not us but they who are the problem. They have usurped vast powers and enormous economic resources—with which they have done nothing useful. These powers must be taken away and these resources redeployed. Quite naturally, the personnel of the state must be retrained, retooled and redeployed as well.

AGAINST PROF. AMARTYA SEN

Finally, a word on the idea that the state should provide a 'safety net' for those who lose out in the market economy. The Nobel laureate Amartya Sen advocates such policies. The very idea is ridiculous. It gives an excuse to politicians and bureaucrats to continue to do nothing worthwhile and spend huge amounts of money on 'the poor'. The essential morality of the market economy is 'self-help'. This gives us the right to ask for freedom. Safety nets present a moral hazard. If there are such nets, a great many lazy people would opt out of the market economy and settle down comfortably in state-provided nets. Just as the IMF bailout plan prompts banks to lend indiscriminately, knowing well that a saviour is at hand when things go wrong, so too does a safety net give people the perverse incentive to rely on public charity.

In India, this tendency of charity to offer a perverse incentive is well known. Beggary on our streets is entirely due to the fact that both Hindus and Muslims encourage it. Sikhs preach self-help—and have no beggars. Yet, they have charity: any hungry soul can feast at a Gurudwara *langar*.

Of course, preaching self-help is one thing, but what of those who cannot help themselves? Let us have many competing private charities. Charity is a good thing, and both Hindus and Muslims possess this virtue. It has only to be appropriately directed. In either case, there is no reason for the state to usurp this role. The state is not a charitable institution. It is there to provide justice—and some public goods and services. Once it gets involved in the business of 'redistributive justice' or 'safety nets', all hell breaks loose. The law, and the state, cannot

play Robin Hood. If you make a law on safety nets, you must remember what Bastiat said—that the law does not have lacteal veins within its breast to feed the hungry. Resources will have to be mobilized—and thus will come in coercive and excessive taxation, or deficits, or both.

Professor Sen also maintains that the state has a role to play in the delivery of healthcare and education. Once again, the question should be asked: Is the state a lamp of learning that it can educate us all? The state does not know how to regulate traffic. What does it know that it thinks it can assume the role of National Teacher? And healthcare: Should the state run hospitals for the poor? Are these good hospitals? I believe if you went to an Indian government hospital, you would emerge with more diseases than you went in with. If the state invested in roads instead, would not a good many doctors look for work in rural India?

If we rely on self-help and keep the state down to the barest minimum, we can be free. And justice will prevail. When it is understood by all that, no matter what, the state will not provide a bailout, this whole business of selling political favours will come to an end. We should hasten this end because, for each of these favours there is a cost—which someone else, not the politician nor the bureaucrat, is paying.

The poor must appeal to private charities alone. Whatever their predicament, they must not go to the state. For that will only take away the freedom of their fellow-citizens and make the rulers more powerful. Ask nothing of the state other than the bare essentials—so that the rulers focus on priorities.

And the better-off citizens should offer charity through well-thought out means that ensure effective delivery and do not pervert incentives. Charitable institutions should compete for donations. This will ensure that the state cannot claim any redistributive role on behalf of the poor. Let us obtain freedom. Freedom comes first. If we emphasize any other political value, we lose freedom. So what if this freedom is not absolute (that would be anarchy). It is up to each of us to snatch as much freedom as we can. For that, it is essential to keep government minimal and justice blind: that is, justice should be impartial. Whether one is rich or poor, or Brahmin or Dalit, or male or female—justice should be blind to these superficial qualities, and it should work uniformly, predictably—and fast.

Markets do not fail. Freedom cannot fail. When we are free, we are also free to correct our mistakes. While some make mistakes, there are others who do the right thing. Learning from mistakes is spontaneous and creative. On the other hand, power inevitably fails. Great powers with grand plans have laid waste to this great land. It is time to rebuild the country. And there is no time to waste. Away with these great powers and their grand plans. Let freedom reign.

10. ENVIRONMENT!

—or How the market will take better care of it

> Just about every important long-run measure of human welfare shows improvement over the decades and centuries, in the United States and in the rest of the world. And there is no persuasive reason to believe that these trends will not continue indefinitely.
>
> —*Julian L. Simon*

The market is quite like an ecosystem. To understand how markets are natural institutions best able to manage natural resources, let us begin with a re-look at the argument that was presented at the beginning of this volume: that population is a cause of prosperity.

The human being is able to create wealth only because he has the ability to trade: 'the natural propensity to truck, barter and exchange' that Adam Smith spoke of. This ability is 'natural': the market is a gift of nature. Little children gainfully exchange toys and food among themselves. This leads to the creation of wealth because in trade, both sides gain: trade is a 'positive sum game'. From this remarkable ability of the human animal there comes about a market economy that is markedly like an ecological system.

The second word to note is 'truck'. We do not just buy and sell; we actually push our goodies at each other. That is advertising. Every time we watch cricket on television, someone or the other interrupts to 'truck' something. This is the way in which we survive naturally in the market economy. It is natural human behaviour. We are all salesmen. Whenever I take a foreigner out shopping on the famous Janpath in Delhi, I teach him two essential Hindi words: *Nahi chahiye*

or I don't need it. You cannot survive on the streets of India without these two words. But let us see how much good comes out of this special ability.

Due to the ability to trade, human beings specialize in what they do best, obtaining their other requirements from the market: the 'division of labour'. Economics, as Prof. George Reisman has defined it, is but the study of the production of wealth through the division of labour.[1] I go to the market with specialized knowledge in political economy and receive my just reward. With the proceeds I obtain for myself the services of a housemaid, a cook, a chauffeur and the produce of farms and factories. I have found myself a 'niche' in the market in much the same way that animal species find their niches in an ecosystem. In that system, various other species survive by creating niches for themselves. Similarly, the market economy establishes niches for a wide variety of people, animals, and things—and all these survive. These niches are not permanent. Changes in market conditions—like changes in weather conditions—affect niches. In my office today there is a niche for a young lad who operates the coffee-vending machine. Soon will come an automatic coffee-dispenser, and his niche will go. He will have to either find or create another niche for himself.

MARKET NICHES ENABLE SURVIVAL

Environmentalists who look only at the wild and talk of species extinction rarely comment on the fact that thousands of unlikely species survive without any problems because they have niches in the market economy. Cats, dogs, horses, cows, pigs, chicken, goats... the list is long. We could also add on various plant species, from the bittergourd to the tamarind which face no extinction threat simply because there is a market for them. Thus, when we hear of forest resources being depleted, we should consider that the most probable reason why the situation is such is that the state has taken over these resources and not allowed the market to work.

There are many examples of the market helping species to escape extinction. Crocodile farms have ensured the survival of this endangered reptile. Similarly, ostriches were being hunted to extinction

[1]There is also the division of knowledge.

for their feathers. Now these birds are bred like poultry, and they have survived. Deer species are protected in India by the state, and their numbers are dwindling. In the meantime, hunting is an offence and a prominent film star even got into trouble for hunting deer. If recreational hunting was an industry and if venison was another, deer would survive plentifully.

This does not imply that wilderness will not survive. But it would be better if we could enable a market for it to emerge. People would pay for the recreational and aesthetic pleasures of roaming in the wilds and for photographing them. If wilderness is privatized in suitable sections, the new owners of our nationalized parks would charge fees from visitors and carefully husband their resources. Today, they belong to the state—and hence to nobody. A tragedy of the commons is the inevitable result: everyone overuses common property and no one looks after it.

An example from nature should help. There is a particularly tall tree that grows in the rain forest, and its foliage serves as the forest canopy. To propagate, it is essential for this tree that its seeds germinate a good distance away from it, because under its shade the infant would not survive. The tree serves up a sweet fruit containing its seed to animals and birds who will help it in the task of reproduction. First come the monkeys. They eat the fruit but drop the seeds just under the tree, where ants eat it up. No seed survives. But at night there is another visitor: the fruit bat. Bats pluck the fruit and carry them far away because on the tallest branches of the tree they face a dangerous predator—a tree snake. They, therefore, quickly pluck the fruit and take it away to the branches of a spiny palm that are snake-proof. They hang below these safe branches and devour the fruit, dropping the seeds below—far from the mother plant. Even then, trouble is not over for the nut. A squirrel cracks many and eats the soft inside. But this squirrel buries as many as it eats—for the rainy day. Some of these buried nuts survive and germinate. There is a lesson in species survival there. If humans discovered and liked this fruit, the tree would find itself a niche in the market and would never face problems about reproduction. The market would keep it alive.

Hindus were probably the first people to commit the mistake of thinking that what we eat will not survive. Indeed, the obverse is true. What we eat does survive—provided market principles work. The most critical principle of the market is property rights. The

trees, the dogs, the cows, the cats... they survive because they are someone's property. That someone looks after them. Careful husbandry of natural resources is promoted by property rights. Otherwise, there occurs the 'tragedy of the commons'. Wildlife is depleted by poachers who own nothing. They are thieves. If wilderness was packaged and sold, owners would husband these resources and take suitable precautions against poachers.

The market niche also explains abundance of any resource. Only resources that are not allocated via the market get scarce. Take the example of water. The world is seven parts water, but water is scarce. This is because it is not being bought and sold: it is not in the market. The state is giving it away free to farmers and slum-dwellers. Actually, willingness to pay for water is very high. In slums many water-carriers make a profitable living. If the state was to step back and water was to be sold through the market, soon desalination would become economical and huge pipelines would come up all over the country supplying water to municipalities and farmers. After all, in some countries bottled water is already costlier than petrol. Why then should there not be pipelines carrying desalinated water all over the place just as there are pipelines carrying refined crude oil? Note there is far less oil in the world than water, but because the market for oil works, there is no shortage of petrol or diesel as there is of water.

AVOIDING TRAGEDIES OF THE COMMONS

Suppose there is a common resource—like a grazing pasture. The fact that it is a 'common' resource implies that no one really owns it: no one has a clear property right. This then leads to certain inevitable consequences: the tragedy of overuse. What happens is that every farmer will think that the grass on the pasture has greater present value and little future value—because he is unlikely to share in the future benefit. Each farmer will think that if there is some grass today, he had better offer it to his flock to graze—otherwise someone else's cows would do the grazing. No farmer will give a thought to the conservation of the pasture, because not one can be sure that the rewards for such action will go to him. There will be no conservation because there are no incentives for conservation. The market and property rights create incentives for better resource use. Those who use resources well are rewarded in the market.

Tragedies of the commons occur in many places, from the overfishing of continental shelves to the depletion of groundwater resources all over the world. In all these cases, property rights must be innovatively applied. One economist suggested that property rights for groundwater resources be shared amongst those who own the ground—in proportion to the annual recharge. Such property rights help in another way: they combat pollution. The pollution of groundwater resources by a disposer of toxic waste amounts to 'trespass' into another's property and it should be firmly dealt with by law. Similarly, if rights to use river waters for recreational purposes was sold, these interests would sue polluters that interfere with their rights.

All this calls for government action—but very different from the methods being followed today. Today, state action imposes huge costs but produces little benefit. In India, I firmly believe that our forests have been destroyed by the state—along with the lives of the natives. The predatory socialist state's latest move has been to judicially intervene in the market in an effort to clean up the air around the capital of India, Delhi: one of the five most-polluted cities of the world. Let us see how socialism caused this pollution and how further socialist state action will do nothing to help it.

CLEAN AIR FOR DELHI

The capital of India is polluted for a wide variety of reasons, foremost of which is socialism, which has kept the people poor. It must not be forgotten that a clean environment requires wealth, and that richer countries are cleaner. East Europe is an environmental disaster; West Europe is getting better every day. Indeed, there are statistics to show that Kew Gardens on the outskirts of London received much more sunshine than the city during the Industrial Revolution. They receive the same amount of sunshine now.[2]

In Delhi, or rather, in the National Capital Region (which includes all the surrounding towns), the socialist state has decreed that all new cars must have emission standards that are Euro norms compliant. This has imposed additional costs on car makers and car buyers.

[2]Simon, J.L., *Scarcity or Abundance: A Debate on the Environment* (with Norman Myers), Norton, New York, 1994, p. 153.

Will the benefits, in terms of clean air, be comparable to the costs? No.

If we look at vehicular air pollution, then the principal culprit is the state, which has produced lousy roads and does not possess the knowledge or the inclination to regulate traffic well. Poor roads and unregulated traffic cause pollution by increasing journey time. A Euro norms compliant car travelling at 60 km/hr produces lower emissions than the same car struggling in second gear. It would make far more sense to privatize roads and charge road owners for the pollution they cause. They will, in turn, charge higher tolls from heavier polluters—giving vehicle owners the incentive to switch to better vehicles. They will also have the incentive to regulate traffic smoothly and ensure speedy flow as this will not only increase their toll collections but also reduce their pollution penalties.

It must be noted, in this connection, that cycle-rickshaws and pushcarts also pollute. When the cycle-rickshaw is occupying the bus lane and the bus swerves into the middle lane to avoid it, it sends all the traffic, in all the lanes, into a tizzy. Every vehicle has to change gears because of the cycle-rickshaw, who transfers the costs of his inefficiency to others.

Socialism has caused air pollution by forcing Indian consumers to use inefficient vehicles like auto-rickshaws. If there was free choice and free trade, then the trade in second-hand vehicles would wipe out the auto-rickshaw. It has found a niche for itself in the protected economy in much the same manner that strange species survive on remote islands. When the winds of the market economy blow hard, these niches will vanish and auto-rickshaws, midget trucks, unsafe buses, and the state's own white Ambassador cars with red lights on their noses will all disappear. The market will end the pollution caused by inefficient vehicles.

In the rural areas around Delhi, the principal cause of lung diseases is smoke inhaled from domestic fires. The state monopolizes gas as well as electricity—and undersupplies them. It further undersupplies roads so that the urban economy and the rural village remain divorced from each other. This perpetuates poverty and the reliance on polluting domestic fuels. The state invests money in subsidising 'smokeless *choolhas*'. Will our people keep using *choolhas* while the rest of the world moves on to seventh generation microwaves?

In urban India, the principal cause of pollution is not automobiles but slums, which spread disease. These will quickly disappear if market principles were brought into play.

RENT CONTROL AND URBAN SLUMS

Socialism does not recognize property rights which we have stressed are the means to preserving the environment. The Constitution of India, one of the longest constitutions in the world, does not guarantee its citizens the right to property. This has grave implications on the environment, the best example of which is the urban slum—an ubiquitous phenomenon. Delhi has thousands of them. Some 50–60 per cent of urbanites in India reside in slums. These spread disease, and are thus a serious threat to the urban environment.

Rent control is price control. If you controlled the price of bread at a level that was uneconomical, then there will be no bread in the market. People will sell *chappattis*, but not bread. In this manner, rent control is the basic cause of slums: because it is an outright violation of property rights. If property can be taken over by the tenant then the market will not step in to supply cheap rooms on rent. The only way to get cheap rental accommodation would be through a politically sponsored slum lord: an economic evil will create a political one. These slums occur on public spaces—a tragedy of the commons. Without land ceilings and rent control, and with good road and rail connections into the surrounds, there would be enough space for all, and renting would be the easiest way for the poor to get a proper place to live in. Today, the law prevents this from happening, coupled with predatory spending priorities.

What is worse, slums begin to create their own interest groups. Spending is diverted to improve slums or to invest in them. This money could have gone into roads to colonize more space for the citizens. Further, tax money is invested in housing for the poor. This money should also have gone into roads, while a market for cheap rental housing should have been encouraged to come about to provide the poor the housing they need.

ALLAH HAS BEEN BOUNTIFUL

So far, the arguments presented have proved, firstly, that human beings

cause prosperity through the division of labour in the market place. This mimics an ecosystem. The market can thus harmonize with nature if its basic principle—property rights—is respected. It was shown that free trade and property rights could do much more for Delhi's air than state intervention of the kind recently witnessed.

But those who call for 'sustainable development' have a problem here. They believe that, while it may be true that humans cause prosperity, there are too many of us on the planet, which has very few resources. There is thus 'overpopulation' of human beings. These human beings, producing wealth through the market economy, ruthlessly exploit the earth's limited resources. They put up a case for state intervention on this ground. They say that, because the earth is too small for all of us, and we are incapable of husbanding natural resources ourselves, the state must step in to make sure all goes well. Is this view correct?

Not at all. Indeed, more resources enter the market when there are more people. There is less scarcity when there are more of us. This is reflected in prices. If we examine over time, the prices of natural resources have been steadily falling because we have been harvesting more of them, in better and in more efficient ways. When Julian Simon first said this in 1980, a group of 'economists' challenged him and a bet was placed to see whether the prices of five select minerals would come down over ten years. In 1990, Julian Simon won his bet!

Simon said that the human mind is the 'ultimate resource': especially young, hopeful minds eager to know and to do well for themselves, because they succeed and in turn bring unlimited benefits for the rest of us. To convince my reader of this argument, let us take the case of a resource that is truly finite and non-renewable: oil. Let us now see what more human beings on this planet mean for the world's oil resources.

For a long time now we have been hearing that oil will run out one day—but almost every other day we keep hearing of new oil discoveries! That is, the ultimate resource, the human mind, is bringing more oil into the market: or to put it another way, into our knowledge. We know oil resources are finite; but we do not really know how much oil is out there. We are getting to know more about it every day, faster than we are taking it out. When many are using this scarce

resource, its price goes up—and makes it profitable to explore, to dig and to research for substitutes. These activities are all taking place and today it is expected that someday soon oil will be replaced as the fuel to run transport vehicles. There will be plenty of oil left over. It will be uneconomical to even bother about it.

The historical parallel is the case of the British steel industry which was dependent on charcoal in its earlier days. This led to the denudation of Britain's forests—prompting the search for coal. When coal became the world's fuel, the trees grew back. Then, for lighting, people used whale oil. Whales were hunted to near-extinction and the price of whale oil was very high. This led to the search for alternatives—and, amidst a wide array of alternatives, oil was discovered underground. With electricity generation, whales are comparatively safe. There is no market for whale oil. And the whale can be saved by the market. It would be interesting if a conservation group could buy a school of whales, electronically tag them, and monitor their movement by satellite. If a property rights regime can protect 'pets', this would be much better than anything else thought of so far.

After the British, the whole world mined coal—but the British have now stopped. You can now carry coal to Newcastle because there is no mining there anymore. But there is coal. It is just that it is no longer economic, and hence, it is no longer required. The same will be true for oil. Alternative fuels will become economic and practicable. With economic freedom the human mind will bring in enough resources for all of us.

The resource scarcity argument is severely flawed. The Lord has indeed been bountiful. There is enough for all of us. Enough space too—if people were not constricted by immigration restrictions. If we look at food supplies, these have grown along with the growth of our numbers, proving Malthusian predictions of doom wrong. I have been informed by National Geographic Television that the total weight of ants on this planet exceeds that of human beings by 300 per cent. Ants eat three times more food than we do. They survive in icy wastes and in hot deserts; they are more spread out than we are. They will survive a nuclear holocaust too. They also look after their environments: the leaf-cutting ant takes care not to destroy a single tree, and actually harvests leaves in an intelligent manner. Are we not better than them?

A PEEK INTO THE FUTURE

While talking about space to live on the planet, we must look into the trends seen in urban geography. While discussing urbanization in the first essay on population, it was mentioned that the earth is now 50 per cent urban—proceeding to an expected equilibrium level of 85 per cent—living off just 7 per cent of the land surface of the earth. It was also mentioned that urbanization spreads urban values —one of which is a small family. Human populations have stabilized in the western world, especially because of urbanization. The same will happen the world over. The planet will be bristling with interconnected cities—the anthills of human colonists—and vast spaces will be open for farming, mining, recreation and so on. And there is an environmental challenge here.

The cities of the future will consume vast quantities of goods brought in from the rest of the world. Citizens will have to exercise caution in what they consume—because if they consume the things that are environmentally unfriendly their cities will not be an asset to the planet. The illegal fur industry has already been hit by the women's movement against the wearing of furs. Citizens must ensure that what they consume is from a niche in the market economy—and if not, they should use innovative means to find that product such a niche. That would obviate the need for any state action.

State action has been especially harmful ecologically on the food front. States have subsidized farming, leading to the cropping of unviable lands—previously the home of wildlife. States have encouraged the use of pesticides, fertilizers and hybrid seeds—and these have had their consequences. One reaction against this has been the movement for organic food. In India, it is reported that our grain, our fruits and our vegetables may be highly contaminated. An organic food movement within civil society should look into the matter. Again, food adulteration is a common phenomenon here. Brand building would help. Most people buy loose foodstuffs and spices, all without brands, so quality is not assured because reputations are not on line. What we eat matters: because what we eat determines what the market supplies. If we decide to eat well and carefully, a lot of the earth's environmental problems would be over without any state action. It requires knowledge-based environmental politics in civil society.

Cities of the future pose the greatest environmental challenge—and opportunity. These human anthills will house 85 per cent of all people and generate prosperity. If these people consume in an ecologically conscious way—for which they require knowledge, not state action—then all will go well. As indeed it should.

THE MARKET IS SUSTAINABLE

The greatest threat to the freedom of successive generations comes from those who advocate 'sustainable development'. They do this, of course, in the pretence of ensuring that 'the current generation must not compromise the ability of future generations to meet their material needs and enjoy a healthy environment.' According to a textbook, the advocates of sustainability generally hold that:

- the biosphere imposes limits on human growth;
- science and technology cannot better the situation;
- population growth is a serious concern;
- economic growth is not a goal by itself.

Due to these beliefs, advocates of sustainable development believe in 'institutional modifications'. The new institutions they propose are:

- an institution for stabilizing population;
- an institution for stabilizing physical wealth and throughput; and
- an institution to ensure that stocks and flows are allocated fairly among the population.

This is the return of central planning! It can be defeated by Hayek's theory of knowledge: these institutions will never possess the knowledge to do their job. They will be dens of vested interests, politicians and bureaucrats and they will destroy the whole planet. Even if the earth were to warm up—and nothing on this planet has ever been static—we must be all free to respond in our own way, because in each of our niches the effect will be different. We must opt for institutions that promote individual rights and thereby facilitate environmental protection.

The global warming thesis is readily being accepted as 'the truth' because governments are accepting it. This is then fuelling the

'sustainable development' talk. Anderson and Leal have a telling comment on this:

> Politicians who are interested in doing something for their constituents and bureaucrats who are concerned about their jobs and budgets also readily buy into the global warming hypothesis. In this case, the politics of information is biased in favour of there being a problem that the political sector can fix. Although none of the global calamities predicted over the years have ever happened, such predictions continue to survive in the political arena because they give politicians and bureaucrats power over human activity. If the experts who believe there is no problem are correct, then there is no need for regulation. Politicians who tell their constituents or bureaucrats who tell budgetary committees that the sky is not falling win few votes or budgetary dollars. Unfortunately, global warming policies are formulated in the same political arena as economic policy, and in that arena a mixture of incomplete theory and bad information do not give us a recipe for success.[3]

The reader thus has to make a choice: in favour of those who believe in freedom or those who advocate state action on the environmental front. This applies more to citizens of predatory states: states that have attempted to plan everything and failed at each task. We live in uncertainty about the future of the world and its environment. But one thing at least Indians should know: whatever the problem, we'll be better off tackling it if we are free than if we allow our predatory state to amass powers on the basis of this excuse. We have already examined the case of Delhi's air and what ham-handed state action cannot accomplish. In that case, it was pointed out that car companies and consumers will bear costs of better equipment, but the air will not be cleaner because of state failures. On the environmental front, our state's actions generally produce rent-seeking opportunities for bureaucrats, costs on producers and manufacturers, and little benefit. There is an established school of free-market environmentalism and a great deal of environmental research using market principles is going on. In India, Dr Shreekant Gupta of the Delhi School of Economics is conducting research on the environment, looking for solutions within the free market paradigm. His views on the work

[3]Anderson, T.L. and Leal, D.R., *Free Market Environmentalism,* Pacific Research Institute for Public Policy, San Francisco, 1991, p. 161.

done by state pollution control boards is most unflattering. The basic problem is that they impose costs all right, but there are no corresponding benefits. They are basing their actions on the wrong paradigm. They are not using incentives and disincentives properly.

EXTRA-REGARDING PRUDENCE

Environmental concern is a form of extra-regarding prudence—and all humans possess it. (Even leaf-cutting ants possess it!) We are, therefore, all concerned about the environment, and this has been used by politicians and bureaucrats the world over to amass powers. These powers are not the solution to the environmental problem. The solution is knowledge-based politics of the environment within civil society. This will build an informed citizenry and take away the 'scare psychosis'. This scare psychosis is extremely harmful because it prompts ham-handed state action; further, it precludes the possibility of taking action based on reason.

In the Julian Simon vs. Norman Myers debate, a question was asked whether the economist (Simon) was utilitarian in a strict sense while the environmentalist (Myers) displayed a spiritual, aesthetic ethic. Simon answered as follows:

> I do not think I am as you describe me. I don't like to swat flies and squash spiders. I'd much rather shoo them out of the house. The notion that one of us has more of a feeling for some aspects of nature or the environment, which explains what we say... I don't think that explains our differences at all.... I don't think that Mr. Myers and I stand in different relationships spiritually to nature or to anything else that accounts for our views. I think what does account for our views is this: I consistently look at the evidence of the past and I look for the longest possible data series, and I examine what has happened and I extrapolate into the future. In contrast, instead of looking at the historical evidence of the past, Norman (in common with most biologists and people on his side of the fence) looks at a set of theoretical propositions about phenomena that 'must' be happening based on supposed physical, chemical, or biological principles. This I believe is the difference. His is a speculative analysis of what *must* happen versus my empirical analysis of what *has* happened over the long sweep of history. This I believe is the fundamental difference between us.[4]

[4]Simon, J.L., op. cit., p. 148.

This is the basic point. Free-market economists like Simon and me do care about the environment in much the same manner as anybody else. Where we differ from the doomsayers is in our analyses. We look at history and see that we are constantly able to sustain more life on this planet as well as harness more natural resources. The prices of these resources are all going down, showing that their availability has increased over time. The price of human beings—the average wage rate—on the other hand, has been consistently rising, showing that, if there is a resource that is short, it is human beings (despite rising numbers). The doomsayers, on the other hand, have a theory that predicts doom: this 'must' happen. In the 1970s they predicted an ice age; today the earth is warming. There is need to show extra-regarding prudence; there is need to look for accurate information; there is need to process all this information and produce real knowledge—but there is no need to be alarmed unnecessarily.

The basic historical record shows that human beings create more than they use. 'This applies to to all metals, all fuels, all foods, and all other measurements of human welfare, and it applies to all countries.'[5] This is how the market, as an ecosystem especially created by us, works. When we see poverty and degradation around us, and filth, it is not the human animal that is responsible for this—this is not due to his 'overbreeding'—rather it is due to bad policies and institutions that take away individual liberty. These prevent us from generating wealth, from living well, and also from looking after the world's natural resources by exercising property rights over them. The predatory state as planner seeking to industrialize the country by restricting trade; the same state as plan financier resorting to inflationary finance; the very same state, as the nation's biggest landlord, systematically allowing tragedies of the commons to occur; and the disregard for property rights (as with rent control)—these are far greater threats to the environment than the hole in the ozone layer, the declining number of tigers, or global warming. It is time for Indians who care about the environment to 'get real' and see the real threat.

FOR A MORE HOPEFUL OUTLOOK

When Julian Simon died, *The Economist* published an obit entitled

[5]Simon, J.L., ibid., p.197.

'An Optimistic Economist'. Yes, indeed he was optimistic, and so am I. I reject the doomsayers. I am often asked at seminars, where I present these views on population being a cause of prosperity (and environmental betterment—if economic freedom were to be granted), if these are a 'minority opinion'. They are not. They are the established view of a school of thought that sees the special attribute of all humans to 'truck, barter and exchange' as the basis for the division of labour and knowledge and the conséquent generation of prosperity through the market mechanism. Those who look at human beings as a problem do not notice this attribute. They see the naked, brown bodies of Third World children and advocate massive aid programmes for 'family planning'. They do not press for free world-trade based on sound money, instead. And they shudder at free immigration—that is their love for humanity.

Similarly, on the environment, they are blind to the working of the market mechanism as an ecosystem that will allow niches in which the environment will be carefully husbanded. Their belief that human beings are a problem—and not a resource—prompts them to look for solutions in the state, rather than in economic freedom, by which each one of us have incentives to find solutions. Their ideas are an equivalent to central planning. They advocate an 'intellectual-moral elite' or a 'group of professionals' with strong powers to solve environmental problems. They could not be more wrong. But, what is worse is that their views are dangerous: a 'techno-fascistic elite' will rule if they have their way. They also promote a hopeless world-view, by which teachers teach children that they are a problem, and not the future hope of mankind. And everyone sees the predatory state as the only solution.

As we have seen, there is a role for the state, but that is the preservation of property rights and the enforcement of contracts. Law, order, justice and some public goods. On the environmental front, too, the state must be 'hollowed out' and market principles brought into play. Today, the environment ministry is running millions of acres of forests in much the same manner that the predatory state is running railways, airlines and hotels: running them into the ground.

The people of this country must see this predatory state and the economic repression it has launched on its people as the main environmental problem. They must see the children of India as the

resource that will fix it. That will give us the hopeful outlook necessary to face the challenges of the future head-on.

CONSUMERISM AND HAPPINESS

Environmentalists lambaste free-market economists saying that we promote 'consumerism'. I have already said that the cities of the future are an environmental challenge and that citizens must be aware of the good or the harm they do the world by what they consume. However, the point needs to be taken a little further, because sound economic reasoning does not indicate that consumerism is a means of maximizing happiness.

Of course, we must consume. In nature, the principle of life is: Eat without getting eaten—and reproduce. But there is a difference between consumption for the sake of living and living for the sake of consumption: and in this context, an economist may have some pertinent thoughts to offer. By 'consumerism' then, I mean living for the sake of consumption. Like living to eat.

In his writings on the people of underdeveloped countries, Lord Peter Bauer often remarks that these people are not really 'poor'; they are 'needless'. That is, they manage to satisfy their basic needs and have no requirements for anything the market has to offer them. They, therefore, do not 'work' to produce goods for the market. Some call this 'subsistence agriculture'; Lord Bauer prefers to look at it as a state of 'needlessness'. He goes on to prescribe not state action for 'development' but the entry of traders with 'incentive goods'. These goods carried by traders tempt needless people into entering the market economy. Development proceeds. There is a lesson here.

Happiness is needlessness. Psychologists call it 'homeostasis'. A psychologist called Henry Murray totted up a list of over 50 'human needs' and if you were to go through that list, you would realize that you would be better off without many of them. Having excessive needs does not make us happy. Each time a need is satisfied a new one arises and disturbs homeostasis. Markets create and satisfy needs —that is the purpose—but, for the individual, a headlong dive into reckless consumerism is not the recipe for happiness. It is a dive into something that our ancients always spoke of: the *maya jaal*—the illusion.

One could perhaps cite philosophers who have made this point, but I would prefer to quote at some length from Jerome K. Jerome's classic, *Three Men in a Boat: To Say Nothing of the Dog!* The trip is about to commence, and our three heroes are talking about what they need to take along, when George says: 'We must not think of the things we could do with, but only of the things we can't do without.' This then prompts the narrator to make the following observations:

> George comes out really quite sensible at times. You'd be surprised. I call that downright wisdom, not merely as regards the present case, but with reference to our trip up the river of life generally. How many people, on that voyage, load up the boat till it is in danger of swamping with a store of foolish things which they think essential to the pleasure and the comfort of the trip, but which are really only useless lumber.
>
> How they pile the poor little craft mast-high with fine clothes and big houses; with useless servants, and a host of swell friends that do not care twopence for them, and that they do not care three ha' pence for; with expensive entertainments that nobody enjoys, with formalities and fashions, with pretence and ostentation, and with—oh, heaviest, maddest lumber of all!—the dread of what will my neighbours think, with luxuries that only cloy, with pleasures that bore, with empty show that, like the criminal's iron crown of yore, makes to bleed and swoon the aching head that wears it.
>
> It is lumber, man—all lumber! Throw it overboard. It makes the boat so heavy to pull, you nearly faint at the oars. It makes it so cumbersome and dangerous to manage, you never know a moment's freedom from anxiety and care, never gain a moment's rest for dreamy laziness....
>
> Throw the lumber over, man! Let your boat of life be light, packed with only what you need—a homely home and simple pleasures, one or two friends, worth the name, someone to love and someone to love you, a cat, a dog, and a pipe or two, enough to eat and enough to wear, and a little more than enough to drink; for thirst is a dangerous thing.[6]

While discussing this passage one day, a friend remarked that Jerome spoke like a socialist. I don't agree. This is something that makes absolute sense to any free-market development economist who has understood the significance of Lord Bauer's concept of 'needlessness'.

[6]Jerome, J.K., Penguin, London, 1889, pp. 26-7.

The free market will not promote mindless consumerism and its concomitant destruction of the environment. What it will promote is freedom—economic, political and cultural. In freedom, human beings will find out how to be happy, how to seek happiness, how to be fulfilled as human beings. In the natural ecosystem of the market, with freedom, each human being will find the niche in which to excel and from which to obtain by exchange the products of others. This will lead to the fullest flowering of the human creative potential. It will yield prosperity. But prosperous people who have flowered as human beings will not be mindless consumers. They will seek culture, art and music. Philosophy will bloom. That is the world to dream of.

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