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ourview

Quite private

The lack of details about private equity inflows in BoP data is disturbing

Little under a fortnight ago, the Reserve Bank of India released the balance of payments (BoP) statistics for 2006-07. Even the optimists were surprised. The data showed that inward-bound foreign direct investment (FDI) grew by 153% to a record $19.5 billion last fiscal; and with outgoing investment rising 279% to $11 billion, net FDI has touched $8.4 billion. Suddenly, India seems to have been pitchforked into the big league as clearly, the story has never read better.

But RBI has now let us know (*Mint*, 9 July) that the inflow number includes private equity. It has adopted the norm laid down by the International Monetary Fund for compiling balance of payments statistics—inclusion of private equity, provided it accounts for more than 10% of the voting capital of the company. Private equity is the latest creation from Wall Street and has aggressively made its presence felt globally, like the stakes in unlisted companies or invest in firms that will get unlisted. They prefer high growth or infrastructure projects, which have a clear and assured stream of cash flows. For the slew of infrastructure projects planned in the country, this offers major hope.

However, given the nature of these flows, unlike brick and mortar FDI, these may not be readily embraced by some key political constituencies in the country. Since private equity funds are yet to score a multibillion-dollar deal here, the operations of private equity funds have largely stayed under the radar. But given their growing presence, it is imperative to gauge the size of these inflows.

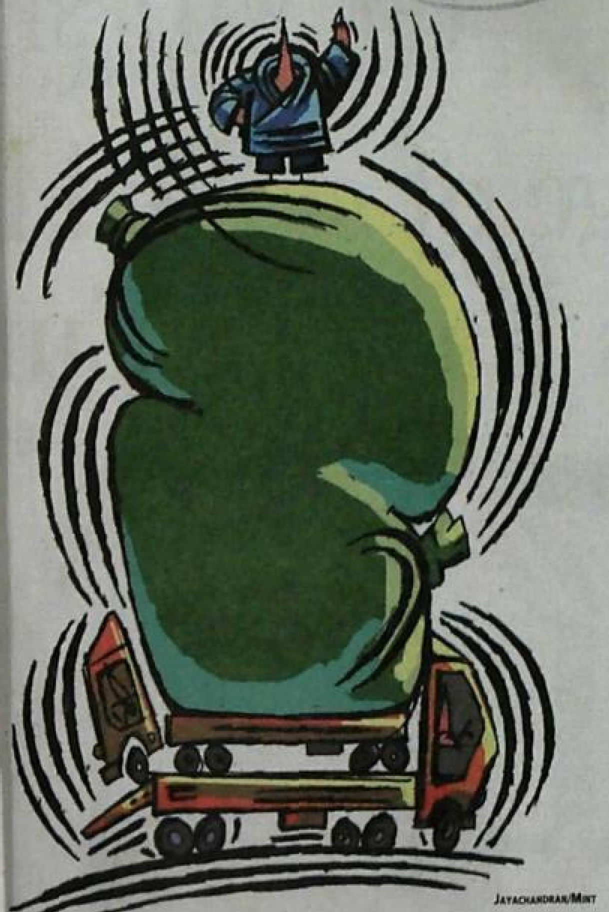
Unfortunately, the central bank does not have the disaggregate data, or at least that is what it claims, to share with us. But going by anecdotal evidence and industry estimates it can be hazardous that private equity inflows in the last fiscal aggregated at least $6 billion. Netting it out would yet. It has raised in its wake a host of questions, though.

First, the inclusion of private equity reflects that FDI has many colours. The popular notion is that FDI entails a strategic investment in business that presumes the infusion of technology and money. Private equity, on the other hand, comes from a financial investor who is certain to exit—that exit could vary from five years at the minimum to a maximum of 10.

Second, as a consequence, private equity inflows inevitably impact money supply, unlike FDI, which goes towards capacity creation. Additionally, it will not be as well calibrated as FDI, as it will accrue in fits and starts, subject to emerging opportunities. This means more uncertainty on the macro economic front, especially for a central bank that, like the rest of its tribe elsewhere in the world, has been battling the problems of plenty.

> No analysis of global financial flows can be complete today without looking at

Any lessons here? It is clear that RBI has erred on the transparency front. It is one thing not to possess disaggregate data, and another not to state it while releasing the BoP. No analysis of global financial flows can be complete growing destination for private equity inflows. Indeed, particularly for the infrastructure sector where investment demand is estimated at $350 billion, private equity funds, with their deep pockets, are an ideal source. The government, too, by gradually putting in place transparent regulatory norms and competitive bidding, is creating ideal conditions for private equity inflows chasing assured returns. Since all this suggests a lot more of these funds coming in, RBI, even at the risk of not being politically correct, should tell the entire story.



JAYACHANDRAN/MINT

mint

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collate funds from large investors and then direct these investments either by acquiring

number less of a headline.

Does this change anything? There is no clear answer as

private equity

uity. It dominates the face of finance in the 21st century.

It is apparent that India is a

Do we need more clarity on the FDI data? Write to us at views@livemint.com

myview

CAFÉ ECONOMICS
NIRANJAN RAJADHYAKSHA

NO LIBERAL POLITICAL PARTY?

Why doesn't India have a liberal, free-market political party?

The lack of such a party is a paradox, since India has seen the benefits of an open economy since 1991. So there should ideally be politicians out there who are keen to embrace the twin goals of an open economy and an open society—and reap electoral dividends. Yet, the political rhetoric we keep hearing is uncomfortably statist.

Over the past few weeks, several commentators and letter writers have discussed this issue in this newspaper. S.V. Raju, for example, has been fighting a long battle in the courts because the current law stipulates that every political party in India needs to swear allegiance to socialism. This he refuses to do—and hence cannot get the Swatantra Party, the lone voice against Nehruvian socialism in the 1960s, registered in our democratic republic.

But I think the issue is far deeper than such absurd legal requirements. It is rooted in social attitudes towards capitalism: The fault lies not in our politicians but in ourselves. The problem is endemic in many other parts of the poor world. This is perhaps why hardly any developing country has an overtly pro-capitalism party, and also why economic reforms have often been introduced by stealth rather than through open debate in most of these countries, including India. (Some even argue, perversely I feel, that the military dictatorships in Latin America in the 1960s and the 1970s were essential because the democratic debate there was too left-wing for its own good.)

The legitimacy of capitalism is unlikely to be accepted by the general electorate unless corruption is restricted

Getting to the root of these problems is essential if India has to build a new variant of the Swatantra Party—one that openly supports markets and globalization. A new academic paper, Why Doesn't Capitalism Flow to Poor Countries, by Rafael D Tella of Harvard Business School and Robert MacCulloch of Princeton University, offers an interesting explanation for the lack of pro-capitalist parties in countries such as ours. The two researchers say that the most important issue is corruption. It reduces the "moral legitimacy of business". Citizens come to believe that success depends on luck or corruption, rather than on hard work and enterprise. Hence, there is always likely to be support for high taxes and regulation, even though these will harm long-term economic growth. "Existence of corrupt entrepreneurs hurts good entrepreneurs by reducing the general appeal of capitalism," say Di Tella and MacCulloch.

The role of luck in success is another issue altogether. Even F.A. Hayek, the most outstanding defender of capitalism in the 20th century, suggested that luck could play a part in economic success. But let's stick with the corruption theme, especially since Indians in general know how damaging it is. We are one of the most corrupt societies in the world. The old system of industrial and trade licensing created an inefficient class of rentiers, who earned extraordinary profits because licensing kept competition at bay.

The economic reforms of 1991 and beyond did dismantle large parts of the old system. Yet, the government and its agencies still have too large a say in economic life. Those who have access to them, either individually or through the powerful business lobbies that work out of New Delhi, get a head start over ordinary entrepreneurs. What India has today is not liberal capitalism, but a corporatist variety. The stories that filter out about SEZs, privatization, shadowy reforms, subsidies to certain industries—all go to convince ordinary citizens that the system is corrupt and rigged to benefit a few business houses.

Nobel economist Douglas North and his colleagues have recently put forth an impressive conceptual framework for interpreting recorded human history. Human societies originally emerge as what North calls "limited access orders". These societies use the political system to limit economic participation and impose social order. The lack of open competition leads to excess profits (or what economists call rents). These rents are used to limit violence and maintain political stability.

Later, there was the emergence of a few "open access orders", where order is maintained through open competition rather than rent-seeking behaviour. Economic and political participation in these societies is relatively unhindered. North and his colleagues say that very few countries have successfully made the transition from closed access to open access societies.

India has perhaps begun the transition, but has a long way to go. We still are too much of a closed access society, dominated by rent-seeking and corruption. The twin analyses—by North and by Di Tella and MacCulloch—suggest that the legitimacy of capitalism is unlikely to be accepted by the general electorate unless corruption and rent-seeking are severely restricted. That is the real challenge for those who dream of re-establishing a new free-market party in India.

And that is also why Manmohan Singh's recent comments on crony capitalism need to be taken very seriously.

nrajadhyaksha

Your comments are welcome at cafeeconomics@livemint.com

THE WALL STREET JOURNAL.

Shortage of skilled labor pinches Eastern Europe

Fast growth and high emigration are threatening region's competitive edge

BY JOELLEN PERRY & STEPHEN POWER

WARSAW/BRATISLAVA

In recent years, global car makers have flocked to Slovakia, attracted by the Eastern European country's plentiful supply of cheap, skilled labor. But this year, when **Kia Motors Corp.** needed extra workers at its local car plant, it had to place fliers in local newspapers and mailboxes urging residents to apply.

Near Bratislava, an area with so many car and supplier factories it's now known as Detroit East, rival **Volkswagen AG** is so short of help that every day it buses workers from as far away as 60 miles.

"I have the most difficult job in the company," says Jaroslav Holecek, director of human resources at VW's Bratislava plant. "Every day people come to me and say, 'I quit. I'm moving to England.' We can't stop them."

Fast growth and high emi-

JOCHEN ECKEL/ BLOOMBERG

plies wiring harnesses to car makers. In the past year, the company has doubled the number of supervisors on its factory floor.

Polish President Lech Kaczynski has complained of being unable to find someone to paint his house because all the painters have moved away. Since Poland joined the EU in 2004, some 800,000 Poles—many of them young and educated—have emigrated westward, by conservative estimates. Most go to the United Kingdom and Ireland, which lifted labor-market restrictions for eastern EU members. Last year, the exodus helped reduce Polish unemployment to 13.8%, from nearly 20% three years ago.

Poland's unemployment rate is still among Europe's highest. In part, that's because many workers, trained in the communist era, have skills more suited to declining state industries like shipbuilding and mining. For others, housing shortages and higher prices keep them from moving to where the jobs are.

Marek Stanistawek, a 63-year-old carpenter, lives in Radom, a once-booming industrial and textile center some 70 miles south of Warsaw. Although unemployment

preserve the perks.

In Slovakia, car makers and other large employers have tangled with Prime Minister Robert Fico over government attempts to restrict their ability to hire temporary employees, and to set limits on the amount of overtime work that companies can demand from employees. Mr. Fico, a left-leaning populist, says it's time for ordinary Slovaks to reap the benefits of a fast-growing economy, starting with "a more social labor code."

"I don't want companies to invest here because we have low wages," Mr. Fico said in an interview during a visit to Volkswagen's Bratislava factory. "I want them to invest here because we have highly qualified workers and good infrastructure."

Shortages of skilled laborers have caused some employers to grant hefty pay increases. In April, **Skoda Auto**, Volkswagen's Czech unit, agreed to a 12.7% pay increase, phased in over 21 months, for some 25,000 workers after they staged a one-day strike. Last month, some 2,700 workers at a General Motors plant in southeastern Poland got $650 bonuses—more than half an average month's wages. In addition, they got 1% wage increases this year and last.

This year, wages in Poland are expected to grow faster than productivity for the first time, according to Warsaw's Center for Social and Economic Research. Polish doctors earn about $460 a month, prompting many to emigrate westward for higher salaries. Many of those who have stayed behind are now holding

putting the country on track to EU membership.

In January 2003, Slovakia bested Poland in a contest for a new €700 million, or $954 million, Peugeot factory employing more than 3,000. A year later, Kia decided to build its first European plant in Zilina, which is 120 miles northeast of Bratislava. That created more than 2,000 additional jobs directly and lured more suppliers to the region. Employers from other industries have followed, including **Samsung Electronics Co.**, which in March announced plans to build a new factory in Trnava.

"It's a totally different market," says Mr. Holecek, the VW personnel director. "We used to be alone here. People only wanted to work for VW."

Now, car makers and suppliers in Slovakia are recruiting from farther away—even from outside the country. Peugeot has built 1,400 dwellings at its factory in Trnava to lure more workers from the country's east. Volkswagen last year recruited about 100 workers from Poland, only to see most quit within a few months to take jobs in Western Europe, company officials say.

The shortages have benefited workers such as Kamille Lenart, a 26-year-old Hungarian. In 2004, after two years at Edscha AG, a German auto-parts supplier in the western Slovak city of Velky Meder, she moved to Hungary for a job at Audi, increasing her monthly pay to about $950 from $680. This April, she jumped to Dirks Logistik GmbH, a Volkswagen contractor in Bratislava. "I was constantly getting offers and I didn't have to go ropean countries are threatening to undermine a crucial asset of the former Soviet bloc nations that joined the European Union three years ago: plentiful, skilled labor at the right price. A dwindling pool of workers is driving up wages in key industries and forcing companies to go to greater lengths to recruit and retain people. It's also eroding one of the EU's responses to competition from Asia—its low-cost hinterland.

Reform fatigue is compounding the problem. In formerly communist countries, the transition to free-market economies has brought more than a decade of belt-tightening and political turmoil. Across the region, workers are growing frustrated. Populist governments are capitalizing by trying to roll back earlier changes to labor laws and to block new ones.

Well beyond Eastern Europe, global economic growth has been so strong for the past three years that unemployment rates have come down almost everywhere. The euro zone's unemployment rate fell to 7% in May, the lowest since Eurostat, the European statistical agency, began calculating the measure in 1993. The U.S. jobless rate in June was at 4.5%, close to a six-year low, though the pace of wage increases for typical workers hasn't accelerated much. The 30-member Organization for Economic Cooperation and Development said recently that in nearly two-thirds of its member countries, unemployment has fallen below sustainable rates.

As the global economy strains against capacity constraints, central bankers are worrying about rising inflation rates—a sharp contrast to the worries about deflation earlier in the decade. Companies in many countries are operating at close to full capacity, facing shortages of everything from land to equipment.

The car, electronics and other companies operating in Eastern Europe aren't about to pull out. With average wages just 16% to 34% of those in countries such as Germany, the countries of Central and Eastern Europe could remain attractive places to make cars and other goods for years. But the labor squeeze is driving up costs, giving new leverage to workers, and speeding Eastern Europe's transition from a low-cost manufacturing haven to a mature market economy.

Favored destination: *Volkswagen Touareg cars are transported from an assembly line to the test grounds at the Volkswagen plant in Bratislava.*

DETROIT EAST

Auto makers and suppliers are competing for workers in the tiny nation of Slovakia, which is on track to becoming the world's largest producer of cars per capita.

Bratislava: Volkswagen's factory employs 9,300 workers. Cars produced include Polo and Audi Q7.

Trnava: Peugeot-Citroën SA's factory employs 3,400, and has an annual capacity to make 300,000 units.

Zilina: Kia's factory started production in 2006; it has a 300,000-unit capacity.

Source: the companies

"Our friends in Eastern Europe should have the same high living standards as people in Western Europe," says Carl-Peter Forster, president of **General Motors Corp.**'s European division. "The question is how fast you go....We should avoid adjusting the standards too quickly, in order not to lose many opportunities for job growth."

In recent years, waves of foreign investment and booming domestic consumption have spurred growth across Central and Eastern Europe. Last year, tiny Slovakia raked in a record $4.2 billion in foreign investment. Poland, the East's biggest economy, attracted a record $13.9 billion. Last year, Slovakia's economy grew by more than 8%; Poland's, by 5.8%. The 13 countries that share the euro currency grew, on average, by 2.7%.

Now, central banks across the region are fretting about wage inflation. If they respond by raising interest rates, economic expansion will likely slow as consumers and firms curtail spending. The National Bank of Poland cited rising wages as a reason for its surprise quarter-point interest-rate increase, to 4.5%, in late June. Multinational firms are unlikely to scratch already-planned projects, but economists worry that shortages of skilled labor could crimp future spending.

"This may become a constraint to further foreign direct investment and economic growth," says Jan Rutkowski, a World Bank economist for Europe and Central Asia.

Already, skills shortages are forcing companies to worry that worker turnover could affect quality. "It's much more challenging to keep the production lines running," says Nikolaus Pfister, general manager of SE Bordnetze-Slovakia in Nitra, Slovakia, which sup-

Radom's rate exceeds 23%.

On a recent morning, Mr. Stanistawek joined a throng of job seekers at Radom's unemployment office. He said he's been looking for a job since 1991, when the local telephone factory where he worked for 32 years shut down. He collects 200 Polish zloty a month—about $70—in welfare payments, which helps to cover the 260 zloty rent on the apartment he shares with his daughter and 13-year-old granddaughter.

Mr. Stanistawek said he knows there are jobs in Warsaw, but contends that the costly commute and higher prices for food and rent in the capital would take too big a bite out of his pay. "My family and friends are here in Radom, not in Warsaw," he says. "Even if I'm not working, it's better to be here."

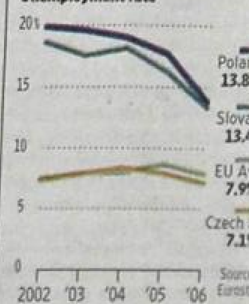
In other parts of Poland, investment surges have tightened competition for technology and back-office workers. Tax breaks and a surfeit of cheap, educated labor have lured companies to the region around Wroclaw, a city of 670,000 in western Poland, where **Hewlett-Packard Co.**, Sweden's **Electrolux** and Korea's **LG Group** have set up shop in recent years. By last fall, the pool of skilled labor was so shallow that Mayor Rafal Dutkiewicz put up billboards in the U.K. and Ireland proclaiming: "Come back, Poles, we have work for you. Wroclaw loves you."

Poland's labor laws also contribute to labor shortages. Teachers and coal miners, for example, can retire after 25 or 30 years of work, regardless of age. As a result, as many as 1.6 million able-bodied Poles—6.5% of the working-age population—are not part of the labor force. Partly due to pressure from businesses, the Polish government pledged to curtail some early-retirement programs next year. But analysts worry law makers will bow to political pressure to

JOB SEARCH

As economic growth accelerates and many workers migrate west, Eastern Europe's falling unemployment rates are squeezing supplies of skilled labor.

Unemployment rate



creases of up to 100%.

Employers are also concerned about Eastern Europe's aging work force. One quarter of Skoda's Czech workers are over 50—a percentage that's rising fast. Industry executives are lobbying Prague to speed the approval of work-permit applications from job seekers in former Soviet republics and from countries with young populations, such as Vietnam.

The scarcity of skilled workers is acute in the area many Slovaks refer to as "Detroit East," which extends in a roughly 120-mile radius around Bratislava. Car production in Slovakia is set to more than double this year, to more than half a million vehicles. As early as next year, Slovakia, with a population of 5.4 million people, could become the world's largest producer of cars per capita, according to estimates by J.D. Power Automotive Forecasting.

Until a few years ago, foreign companies tended to shun the country—Volkswagen was an exception—amid concerns about its authoritarian premier, Vladimir Meciar. An ex-boxer, he tightly controlled the state media and drove up the deficit with public-works projects. Then a more business-friendly government took over, cutting corporate taxes and

she says.

More than 170,000 Slovaks now work abroad, according to government estimates, nearly three times the number in 2000. Robert Tancibok, a 22-year-old welder at VW's Bratislava plant, recently told his bosses he plans to move to Frankfurt later this year. He intends to wash dishes at a restaurant for about $11 an hour, about 30% more than his hourly wage at VW. He says he wants to earn enough money to return to Slovakia, buy his own house and start a family.

As Eastern Europe's population ages, some economists contend, labor-supply problems may grow. Five of the eight ex-communist countries that joined the EU in 2004 had net population drops last year. The cost of caring for aging populations could drive up tax rates and deficits. That could make it difficult for countries to embark on public-service projects such as building affordable housing to help lure emigrants back home.

Already, some large employers in Eastern Europe are looking farther afield for solutions. Mr. Pfister, the executive at the wiring-harness maker, says his company has cut roughly 700 jobs in Slovakia over the past year—20% of its local work force—and transferred some production to Ukraine, Bulgaria and Morocco.

Others are importing labor. Poland's largest residential building firm, J.W. Construction, imported some 200 laborers from Uzbekistan and Tajikistan in April to supplement its Polish skilled-labor work force of 1,000. Last fall, to help construction and agriculture firms, the Polish government lifted visa and work-permit restrictions on short-term workers from neighboring countries such as Ukraine and Belarus. Proposals are afoot to extend those privileges to workers world-wide.

Malgorzata Halaba in Warsaw contributed to this article

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February 17, 2008

Mumbai madness

IMITATION is the best form of flattery. The Shiv Sena supremo Bal Thackeray's nephew Raj Thackeray seems to think that. The leader of Sena breakaway Nava Nirma Sena, by targeting for attack the North Indians living in Mumbai, has reminded everybody of Sena's attacks on South Indians decades ago. The Sena came into prominence by appealing to the middle-class Maharashtrians who felt their jobs were going to the migrants from the South. Just as South Indians in Tamil Nadu felt threatened by the North with the imposition of Hindi and so on. And neighbouring Andhra felt slighted when all political decisions (when the Congress ruled the state) were imposed by Delhi.

Those were different days, different times. Maybe they served a purpose. But today to attack the North Indians who number more than four million in Mumbai smacks of some kind of despair. Of trying to capture popularity by any means and of playing dangerous political games.

People land in Mumbai, because as the saying goes nobody starves in that city. With the hustle and bustle of its teeming millions, there is some job or other to be had. In spite of the many horrors that have visited Mumbai like bomb blasts, terrorist attacks, the city still holds together and gets on with its routine. Its film industry is so inclusive that language, caste and state play no role there. Its leading ladies have come from the South and have been welcomed and celebrated. Amitabh Bachchan, lets face it, is the reigning king of Bollywood. He is popular all over South East Asia and the Middle East. When did someone one in any part of India think of him as a North Indian? His wife is a Bengali, his is daughter married to a Punjabi and son to a South Indian.

A paltry ambition

The day Bombay became Mumbai, it lost its uniqueness and character

perceptions

N S JAGANNATHAN

South Indians were once the hate object of the Thackeray Paterfamilias, Bal Thackeray. It is now the turn of Hindi-speaking North Indians — the chosen targets of his estranged nephew Raj Thackeray, head of the Maharashtra Navnirman Sena. For the last few days, he has been spouting venom at those from Uttar Pradesh who have made good in Bombay that is Mumbai. Hindi film cult figure, Amitabh Bachchan, has become the special target for having allegedly become "brand ambassador of Uttar Pradesh and directing his philanthropy" to that State rather than the city where he made his money. Taking their cue from their leader, MNS cadres have been indulging in violence, particularly against adherents of the UP-based Samajwadi Party. Despite minatory noises from political leaders of other parties and the Maharashtra and Central governments, Raj Thackeray is unrepentant and defiant. After much hesitation, the Maharashtra government has filed cases against him under several sections of the Indian Penal Code but, as of writing, it has not dared arrest him.

Not to be outdone by his cousin Raj, Uddhav Thackeray, loyal son of Bal Thackeray and Executive President of Shiv Sena, has been making his own denunciatory noises against "outsiders". Addressing his loyalists at a recent meeting, he referred to the ongoing project of modernisation of the Mumbai airport, and said: "There are going to be a lakh of jobs for airport work. If you bring outside workers, they will be packed of in a parcel and sent back in a cargo plane." He also wants all the sign boards welcoming deplaning passengers to be written in Marathi: Never mind the mystification of the sedulously wooed millions of foreign tourists.

To those of us who have vivid memories of Mumbai when it was Bombay, all this will be a matter of infinite sorrow and shame. It may be an imperviously contrarian view, but to my mind, the day Bombay became Mumbai, it lost its unique attraction as the most cosmopolitan and hospitable of Indian cities. Other metropolises such as Calcutta (Kolkata) or Madras (Chennai) may have attractions of their own but their parochialism was hard to miss. In stark contrast, denizens of Bombay were truly citizens of the world. In its demographic diversity and in its readiness to welcome outsiders, Mumbai is — or was — comparable to Paris, New York or London. It was (and I hope still is) a "result-oriented city," with its million denizens going about their business in unhurried haste. Unkind critics may consider them money grubbing but what is wrong with that? As Hilaire Belloc once put it: "I am tired of love and I am tired of rhyme. /But money gives me pleasure all the time." From the pavement hawkers to tycoons in their Khar and Malabar Hill residences, these industrious individuals are probably the most important contributors to our Gross National Income.

Stand near the Churchgate station of an evening and watch the thousands of people of all shapes and sizes from every part of the country moving as one in a state of organised chaos, to catch the suburban trains back home after a hard day at offices or the stock exchange. These suburban trains are a marvel of human adjustment and efficiency — almost always on time (one can actually set our watches by them!) and running for 22 hours in the day 7 days a week. The good humour and tolerance with which the travellers, young and world, in the jam-packed compartments of these trains, put up with the nudges and jostling of fellow passengers is a lesson in tolerance. To watch and understand this city that never sleeps one only has to stand outside any of the suburban stations through the day — and night.

Take a taxi — Almost always the driver will be polite, helpful and honest. Go to a restaurant and you will have an authentic choice of every cuisine of this country and of the world at prices that suit both the poorest and the most conspicuous consumer. If you are a bibliophile, then go to the Shanbhagh's Strand. Better still go to the pavement booksellers dotting the pavement from VT (Now Chatrapathi

Enterprise is in the very blood of every Mumbaikar or Bombaywallah. Where else in the world does one have the dabbawallahs making deliveries of hot home made lunches to office goers on the dot, rain or shine? The logistics and efficiencies of this system have found their way into business school syllabi. The purpose-focused attitude of the denizens of this city, who notionally belong to practically every sub nationality of this country but have made Bombay their home, is amazing. Ask any one of them whether they are not nostalgic about their original homes and virtually every one of them would say that Bombay was their home. Generations have lived here without visiting their home towns or villages even on vacations. And on the rare occasions they do, they feel restless within days and want to get back.

Bombay has always let India's regional cultures develop and flourish without losing its essential cosmopolitanism or diluting its Maharashtrian identity and incorporating all this into its uniquely inclusive identity. An example with which I am familiar is the Shanmukhananda Sabha. Originally started by South Indians for having their own music concerts and dance recitals, it has now become a generalised home of the arts without losing its unique identity.

Think of the intellectual forces that have shaped India's cosmopolitan culture and arts, of the great figures in the economic, industrial and social activities and this city has been in the forefront for decades. The Tatas are still a Bombay company despite their factories being scattered all over the country (and progressive-

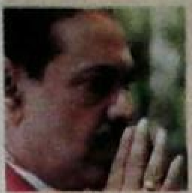
RAJ THACKERAY

Mumbai is the only truly cosmopolitan city in this country. Why do small-minded politicians try and destroy the maximum city?

are a Culture Vulture, then Bombay is the place for you. Every musician worth his salt makes Mumbai his home or his second home. And mind you the Mumbaikar is a serious connoisseur unlike the denizens of many other cities who haunt cultural events to be seen rather than to hear.

devotion to the city is evidenced by the many acts of philanthropy that are visible all over the city. Bombay has a glorious trade union history with great names like N M Joshi having been the stuff of legends in their time. To reduce all this to a Marathi backyard is a paltry ambition. ■

who said what



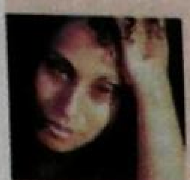
Yes, only if they give up their weapons. They can't have their cake and eat it too. Ceasefire will give them time again. We don't want them to strengthen themselves and attack us. We want a final solution.
*— Sri Lankan President **Mahinda Rajapakse** replies to a question whether he will talk if the LTTE comes back to the negotiation table*

We are in favor of national reconciliation and would like to muster the support of all political forces after the elections to ensure good governance
*— **Mushahid Hussain**, secretary-general of the ruling Pakistan Muslim League-Q, on his party's chances in the forthcoming elections.*

No one is perfect
*— Indonesian President **Susilo Bambang Yudhoyono**, on the death of former dictator Suharto*

If north Indians want to stay in Maharashtra, then they better learn the Marathi culture and language
*— Maharashtra Navnirman Sena leader **Raj Thackeray***

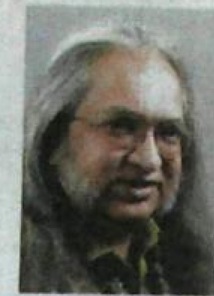
They really want to attack your morality and your beliefs. They need you to give up a certain part of yourself before they'll initiate you into 'stardom'. I've always been kind of a hermit. I find my joy in the little things they want to take away from me. Prior to all this, I took pleasure from being the observer. Now I'm the observed
*— **Hayden Christensen** of Star Wars fame on his Hollywood ambitions*



I think my music, like all music, is unfinished business and doesn't want to be defined
*— London-based singer and composer **Susheela Raman** on her music*

Do we need socialism?

When Liberty and Self-Help are the main ways to real progress



antidote

SAUVIK CHAKRAVERTI

A constantly moving target is difficult to shoot. But shoot it we must. I refer to the word 'socialism', which was inserted into the preamble of the Constitution; and the subsequent infiltration of this term into the Representation of the People Act, by which all political parties are made to swear by socialism in order to be eligible to participate in the electoral fray. At stake is the idea of a truly liberal party based on individualism and private property — the very antithesis of socialism.

But what is socialism? Is it the 'commanding heights of the economy' that Nehru ascended? Is it the empire of PSUs that no party wants to privatise? Is it the contempt for private enterprise and private property? Apparently, it is none of these things anymore. The Supreme Court has found yet another definition of socialism — a definition that has serious implications for our future. If this new definition goes unchallenged, socialism will be perpetuated; simultaneously, liberalism will be barred.

On January 9, 2008, while dismissing a petition challenging the legislation that makes it mandatory for every 'recognised' political party to swear by socialism, the Chief Justice of K G Balakrishnan, asked counsel Fali S Nariman: "Why do you define socialism in the narrower sense as the Communists do? Why don't you go by the broader definition... which mandates the state to ensure social welfare measures for all the citizens... as a facet of democracy?"

There is an ever-present danger with Supreme Court: that it will act in ways that preserve the government, of which they are a part. Indira Gandhi called her judges 'a committed judiciary', and it seems they are indeed still committed to her political ideals.

An entirely new judicial definition of the dreaded word has been established: one that 'mandates the state to ensure social welfare measures for all the citizens, as a facet of democracy.' Justice Balakrishnan wants 'welfare for all the citizens' — but that must be over-enthusiasm for his cause. What he probably means is welfare for the really deserving poor.

Classical liberals of 18th and 19th century Europe and America would be horrified by the idea of a 'welfare state as a facet of democracy.' To them, the great idea was Liberty for all — especially the poor. It was held that people are diversely gifted and only in a liberal, free market order could each find his 'just deserts.' And since that is a competitive struggle for all, along with Liberty came Self-Help. Samuel Smiles' eponymous volume was a classic of its times, selling 20,000 copies in its first year alone. *Self-Help* was kept next to the Bible in every Victorian home, an aspect of Victorian morality all too easily forgotten today, thanks to welfare statism in the west, and its culture of dependency. (Incidentally, Liberty Institute has republished the book in India.)

Liberty and Self-Help were the two pillars of classical liberalism, especially among the poor. That is why the first 'mass movement' in British history was the one for free trade in the 1830s, led by Richard Cobden and his Manchester Free Trade League, in which the working classes eagerly participated. Socialism was not even on the horizon then.

The 'welfare state' is a product of the 20th century, that too, after the second World War. It has indeed become a 'facet of democracy' in several western nations, but not a good facet. The welfare state is the darling of 'tax-borrow-print-and-spend politics' that is funded by Keynesian fiat money, that sustains a vast 'spending bureaucracy' and subsidises an underclass that is increasingly work-resistant. Yet, even in these countries, there are parties and political leaders that oppose welfare statism — like the Tories did under Margaret Thatcher. In a truly liberal order, it is unthinkable that every party must swear by the welfare state. But the situation in India is far worse, and there are good reasons to believe that the Chief Justice's conception of a good society, if ever allowed to come into fruition, will spell disaster for the nation and its people.

Writing in the 1950s, the great dissenting development economist, Peter, Lord Bauer, said that widespread beggary on the streets of India and Pakistan is not a sign of poverty; rather, it exists because the dominant communities in both these countries, Hindus and Muslims respectively, believe they earn spiritual merit when they offer alms to beggars. In the very same countries there are large communities like the Parsees, Sikhs and Jains who practice charity differently among themselves — and produce no beggars. A 'welfare state' of the kind contemplated by the learned CJI would cause beggary in India to multiply thousand-fold.

What is the best way to help the deserving poor? When I ask this question during seminars, I offer students three choices: First, take direct action and give alms to every beggar you come across. Second, pay taxes to the government and ask the government to help the poor. And third, donate to a good charity organisation like Mother Teresa's and ask them to use that money to help the poor. Even kids of Class 5 decide that the third option is the only doable one. To liberals, charity must be private.

In India, what keeps people poor are stupid policies — and all these policies are the product of 'socialism', however defined. The new definition will lead to the perpetuation of our 'spending bureaucracy', without any benefit to the poor. For real progress, India needs the classical emphasis on Liberty and Self-Help — and well-directed private charity.

If an example of an Asian country is required that prospered immediately upon embracing these principles, it is Japan after 1868: the Meiji era. Samuel Smiles' *Self-Help* was translated into Japanese then, and widely read. It convinced the ordinary Jap that with Liberty all he needed to add was sincere, individual effort. And every Jap worked hard; their work-ethic is the stuff of legend. The populous little nation flourished and became an inspiration for all of Asia. The Japs have never embraced socialism. It is still Liberty and Self-Help in the Land of the Rising Sun.

If India is to regain her lost glory, socialism must be dumped and her people encouraged to help themselves. Indians are known to be hard working. The new definition of socialism offered by the CJI is patronising and impractical; and it will not lead to the 'welfare' of the poor. A liberal party opposed to socialism must be allowed to attract the mind of the smart Indian voter. ■