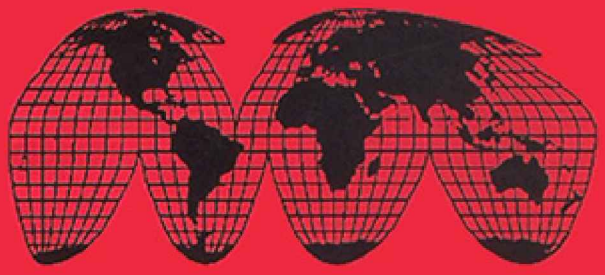

INDIA,
The Third World:
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CAN INDIA OVERTAKE THE USA?

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TO ALL WHO CHERISH FREEDOM,
TO THE MEMORY OF AYN RAND AND
TO SHALINI MY WIFE,
MANAV MY SON,
MY PARENTS AND BROTHERS,
AND R.D. TUTTLE

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The title of this book was contributed by my wife, Shalini. Her critical comments helped to fashion each chapter and her constant encouragement and her willingness to take on the full burden of our common responsibilities made this book possible. My son Manav, 10, through hardly at an age to be able to understand what I write, contributed his mite by not worrying me about spending time with him, when the fathers of all his friends were doing so with their children.

My brother Rahul had always been encouraging me to write this book and fully shares with me my belief in capitalism and free enterprise. He accompanied me on my pilgrimage to Milton Friedman and actually made the journey possible. He helped me in the writing of the chapters: when it comes to industry and trade your rights don't count and controls on prices, currency and rent. He was one of my earliest supporters and enthusiastically provided many valuable insights. My youngest brother Amit eagerly awaits reading the book and discussing it with him would be greatly satisfying. My parents – though they may disagree with me and my mother, a Delhi college principal, is horrified at my views on education – have always supported me and taken pride in whatever pursuit I embarked upon.

A number of my discussions have been with the moneylender, loan shark and gambler R.D. Tuttle. He holds the monopoly on gaming in the Indian sub-continent-running the only four casinos permitted to be run by the government of Nepal. He made me familiar with many of the authors who find mention and have been quoted in this work – Mark Tier, Robert Ringer, Jim Dale Davidson and the indomitable W.G. Hill.

My special appreciation to the British novelist and travel writer Royston Ellis, author of 'India By Rail' whom I met in Sri Lanka, When I told him I thinking of writing this book, he urged me to stop thinking and get on with it. His editorial help and advice have been invaluable.

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Kesang retyped the entire manuscript after it was updated and was responsible for seeing to it that the final diskette before going to the publisher was flawless. Shagun read the final proofs and ensured grammar and punctuation. I will always remember them with a feeling of gratitude.

R. W.

AUTHOR'S NOTE

I was flying from Seattle in the USA to Japan's capital Tokyo. It was on that long flight when everyone was sleeping, that I started thinking about writing this book.

The knowledge of what I had seen in the USA and in Japan and earlier in Hong Kong and Singapore made me sad. As an Indian, I know that most of the people in India have never visited those lands and most never will. What is sadder, is that most of us will never realize or understand why India has remained one of the poorest nations on this earth when others have prospered.

Most Indians don't know that the ordinary common man, just like you and I, enjoys the kind of life in developed countries which is not available to even the top 10 per cent of our people. It is not a question of money. In fact many facilities which I had become accustomed to and look for granted while I was abroad are not available back home to anyone at any price. Not even a king's ransom will buy you and I the type of telephone service which is available to the smallest farmer in the remotest corner of the USA.

But it need not be so. The changes that I write about in this book are within our reach. The way to prosperity, to gain wealth, to take India to the greatest heights of glory, is within our grasp. We can, if we wish to go on this path, begin today.

There is nothing wrong with Indians. The Japanese do not work harder than us - hundreds of thousands of illegal Indian and Pakistani workers in Japan, each averaging earning of US$ 2,500 (Rs. 77,500) a month, are a testimony to that. The Americans are not smarter than we are - the huge number of engineers, scientists and professionals amongst the 50,000 strong Indian community in and around San Francisco amply proves it. The per capita income of Indians in the USA is 20 per cent more than that of the average American. The Chinese do not possess any extraordinary ability which can't be matched. The number of Indians in Singapore and Hong Kong who are managing hotels, shipping and computer companies well bear that out. A trip to Dubai will show anyone, like it showed me, that it is Indians and Pakistanis who keep the economy humming.

So what keeps Indians from doing the same in India? The government! The bane of our lives is the way we are restricted, taxed and controlled by our bureaucrats and politicians. Tavleen Singh writing in Indian Express of June 19, 1994 said -

One of the reasons why people like me criticise Nehru's economic politics is because in my view, without them, the Indian middle class would have been at least 800 million-strong. If there are 200 million Indians today who can consider themselves middle class, it is despite Nehru's policies not because of them.

Wherever the dead hand of central planning and Government controls did not reach, India boomed. Wherever it did we got, and are still stuck with, huge, useless, money-guzzling public sector units and social welfare that stopped at the welfare of Government servants.

Nehru's policies did not tie rings of red tape around... our diamond merchants and they are, today, well on their way to cornering the world market. The same can be said of a whole variety of Indian entrepreneurs who have fought their way to success and their fight has always been, and continues to be, against the policies of the Indian Government.

Controls have become so much a fact of our lives that it is only when we go abroad to comparatively freer lands that we realize what we are missing.

Returning to India always has a sobering effect on me. The feeling, I am told, is not uncommon. The reality hits us right from the moment the flight lands and we have to clear immigration and customs. Believe it or not, our laws are so petty that they even stipulate that if your wrist watch is repaired abroad the value of the repair is taxable. Reach your home and there is quite a good chance that there is no electricity, the telephone is not functioning and your wife's passport which you had applied for has still not come.

Why do we have to tolerate such a sorry state of affairs? We don't have to! Do we have to wait years for a telephone connection when people around the world have portable units in their pockets and are able to be in touch instantly with any part of the world? No. Not if we have the private sector providing the telecommunication facilities-government never had any business running telephone exchanges and should get out.

Do we have to pay one of the highest fares to travel by the unsafest airline in the world? (Yes, I am referring to that national disgrace called Indian Airlines.) No! Get the government out of the airline business and you and I, the passengers, will benefit. By mere deregulation not privatization (airlines were already in private hands), the American consumer puts in excess of US$ 6 billion (Rs. 18,600 crore) in

his pocket every year. Do not bother about the bankruptcy of PAN AM. For far too long had government regulations protected this behemoth at the expense of travellers. It is only those to whom the customer gives his patronage that will survive. Inefficient companies will and should be weeded out.

International herald Tribune of December 10, 1991 under the heading 'Deregulation is Working' said about air travel in the USA:

...deregulation has mostly done just what it was supposed to do, giving most air travellers more flights, more convenient schedules and substantially lower fares.

... For every Midway or Pan American that has departed, a USAir or Delta has taken its place.

...the number of airlines competing on typical routes has risen by one-third under deregulation. That is why fares are now 20 per cent below what the government would have set under its old formula.

...In a new study, Robert Gordon of Northwestern University shows that hub-and-spoke schedules have added more nonstop flights than they have eliminated. And there are more convenient options for nearly every traveller.

...the Brookings scholars conclude that travellers are better off, to the tune of tens of billions a year in lower fares and added convenience.

Imagine just what would happen in India if the government were to privatize Indian Airlines, put no restrictions on new entrants and not restrict competition among airlines in any way. The few private airlines which do operate face onerous regulations & licensing requirements. As of now, private airlines are not allowed to operate on international routes. Does this make any sense? Foreign carriers are allowed, while our own are completely prohibited!

One television do we have to watch the Doordarshan channels with their platitudes and political rhetoric while in the USA viewers have a choice of a 100 channels? No! The government should stop restricting our liberties by prohibiting private TV and radio networks. These restrictions have become superfluous when millions are hooked to CNN, STAR TV, Zee TV and cable besides being able to view news on video. Why does the Indian government try to enforce these meaningless restrictions?

On March 25, 1994, sitting in my hotel room in Kathmandu, Nepal, I watched the 1st one day International cricket match between India & New Zealand. It was telecast by STAR TV on its Prime Sports channel from Napier, New Zealand. The transmission

was superb, the quality of broadcast excellent as usual. On the same day, I also watched the 1st match of Davis Cup tie between Zeeshan Ali of India & Lim Courier of the USA. The match was telecast from just across the border from Delhi by Doordarshan. The extremely poor reception did no good for my weak eyes & besides I finally lost count of the number of breakdowns in transmission. I did not bother to watch the 2nd match. Why in the world would out country continue to deny our private operators the right to run radio & TV network while it has no control over foreign private operators beaming directly to our viewers. There is only one word for such policies. Insanity.

You may be able to think of many more comparisons about the freedom and efficiencies in other countries and the dearth of both in India. The fact remains that we do not have to suffer any more if we choose not to. Restrict, control and limit the government instead of the people and we have the beginning of a miracle.

This book shows why we must get the government off our backs and what heights of achievement we can scale by such steps. To build something takes time, Rome was not built in a day; to destroy anything can be accomplished very quickly. Since our purpose is the elimination of controls, not building them, the task is simple indeed. Before that we have to understand why this is of such critical importance. That is what I have attempted to do with this book.

I was in school in grade five when I first realized that life is about freedom. Take away freedom and what you have is a life in prison, a life without meaning. Governments restrict our freedom varying only in degree. Where freedom predominates people prosper, where controls and restrictions abound people remain mired in poverty. The ultimate result of the ultimate in controls is exemplified by the fate of the former USSR, where the system collapsed under the weight of its own contradictions.

One of the most passionate advocates of individualism and capitalism was Ayn Rand, author of the famous works *The Fountainhead and Atlas Shrugged*. She shaped my thought during my later years in school and one of my biggest regrets is that I could not meet her in person before she died in 1982. Another person who has had a great influence on me and on this book is novel laureate, and the first economist ever to bring economics to the masses: Milton Friedman. His book *Free to Choose* was an international bestseller. My brother and I had the opportunity to meet him at his apartment is San Francisco in 1989 and I regard the time spent with him as one of the highlights of my life.

Some of the other who influenced me were Robert J. Ringer author of bestsellers *Looking out for No. 1* and *Restoring the American Dream*; James Dale Davidson who wrote *The Squeeze*; and many others at the Libertarian Cato Institute in the USA. The USA today is not the country it used to be. Detailed government intervention has made one of the most productive economies of modern times an 'also ran' in terms of growth.

The first chapter 'Government is Immoral' lays down the philosophy of capitalism - why it is the most moral system ever devised or can ever be devised. Chapters 2 through 12 tell us about the havoc created by government intervention. Chapter 13 through 15 are about the ideal system and the incredible growth and prosperity which capitalism would mean for all of us.

I intend to establish a dialogue with you, my readers, by a periodical newsletter. In future editions, or in the newsletters, your comments will be considered any we will try and publish them as well. Please do share with us your experiences of government actions causing personal harm to you or others.

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PART ONE

THE IDEA

WEALTH FOR ALL

1
GOVERNMENT IS IMMORAL

Political power grows out of the barrel of a gun - Mao Tse-Tung

Power corrupts; absolute power corrupts absolutely. - Lord Acton,

Letter to Bishop Mandell Creighton (5 April 1887)

The greater the power the more dangerous the abuse. - Edmond Burke

When I was a schoolboy I used to collect stamps. So did my best friend. One day he offered to swap a stamp of his that I had always coveted for one of mine that I was very proud of. The choice of parting with my favourite stamp to gain ownership of something I wanted, raised may questions in my young mind. Did I really want his stamp so much that I would part with my most preferred one?

I offered him two other stamps from my collection, but he refused. In the end, I agreed to the exchange because I calculated that my friend's stamp was worth more to me than the one I was trading. Likewise, he must have preferred my stamp over his. The exchange was to a mutual advantage and that is why it took place.

VOLUNTARY EXCHANGE AND FREEDOM OF CHOICE

Without knowing it then, I had participated in the fundamental principle of trade and commerce: voluntary exchange. My friend and I were exercising our freedom of choice. This was not a gift given to us by our parents, or by the government. Freedom to choose, whether it is a stamp or a lifestyle, is a right everyone of us is born with, a right possessed by every individual by reason of existence.

Adam Smith's *The Wealth of Nations* published in 1776 offers a wisdom which is basic to our understanding of trade and commerce: A voluntary exchange between two parties will take place if and only if both believe that they stand to benefit.

This is the fountainhead from which all understanding of economics should flow. If these words are not kept in mind you won't reach a correct conclusion. These words strip away the mystique and complexity with which politicians and bureaucrats have enshrouded trade and commerce.

The truth in the statement is obvious: two consenting adults, or even schoolboys, will not enter into any transaction unless they both believe that they stand to benefit. This assumes, of course, the absence of force.

You and I, everyone of us, should be free to choose, and to engage in any activity of our choice with absolutely no restriction placed on us. Am I saying that thieves, murderers, extortionists and rapists have the right to steal, kill, pillage and ravish. No. It is stating the obvious to add "so long as a person does not infringe upon the inherent and basic right of any other person".

Any system which does not depend on voluntary exchange and freedom of choice is a system of force - a system where you and I are forced to do what we would not have done voluntarily.

A society which rest on principles of force cannot progress. Between societies or countries using variable degrees of force and voluntary exchange we find that progress is directly proportional to the amount of free voluntary exchange permitted. The more the controls, the more the application of force; the more the suffering and the more primitive, backward and unhappy that society or country is.

Economist Grigori Yavlinsky who led efforts to forge an economic union among the former Soviet Socialist Republics, was quoted in the *International herald Tribune* of October 5, 1991, as saying:

National leaders cannot coerce producers into complying with a plan worked out by government. Ukrainian farmers and Russian factory workers alike want to be free to buy and sell goods for the best prices available and to control their own lives.

All government action when they seek to intervene in the marketplace or the economy, constitute and application of force. They force an outcome which is not the result of 'one willing person agreeing with another willing person'. For this reason alone government intervention ought to be rejected.

How often have you heard government intervention justified on so-called moral grounds? Politicians love to espouse causes like redistributing wealth, raising the standard of living, protecting workers, protecting jobs and so on. Why do people accept and even agree enthusiastically with these so-called moral reasons for the enforcement of government controls? It is the greatest of all ironies that an application of force is justified on moral grounds. Morality ends where force or government – which is by far the biggest

user of force – begins. Government, in fact, is immoral.

Is it moral for a man to come to your house year after year and take away half your income under the threat of violence? How does it become moral for a state to do the same (look at all the direct and indirect taxes which are collected), hour after hour, day after day, year in and year out. And then to justify it on moral grounds!

What about the altruistic task the government performs, or attempts to perform, such as health care, old age benefits, unemployment dole, institutions for mentally or physically handicapped, etc? All these are laudable objectives. Laudable until we realize that as Malcom Fraser, former Prime Minister of Australia once said: governments cannot give you anything because they have nothing to give.

Government's largesse – what keeps a lot of us believing in the benevolence of government – is a con trick. People accept the idea of handouts from the government because most of us would like to get something for nothing. In a book called *Gambling Scams*, author Darwin Ortiz writes: "it is an essential characteristic of every true con game that the one who is swindled always believes he is going to do the swindling".

Ortiz cites the story of an obviously wealthy young woman who lost a diamond right at a gas station. She told the pump attendant she would gladly pay a reward of $1,000 to the finder, and begged him to phone her at her hotel if the ring should be found. Sometime later, the pump attendant saw a tramp pick up something in the forecourt of the gas station and he quickly discovered it was a diamond ring. He eventually persuaded the tramp to part with it for $400, believing he would be able to claim the reward and make $ 600 profit.

When he phoned the hotel, the woman was not there and, worse, he subsequently discovered that the ring was worthless. He had been conned, because he believed he was doing the conning. The right thing for him would have been to give the lady's hotel telephone number to the tramp for collecting the reward. After all the reward was offered to the finder. This is our story as well. This is why we let government interfere in our lives. We believe we can outwit our fellowmen and gain at their expense. We feel the government will tax them and turn over the money to us. In reality, all of us are losers. There is no free lunch.

Whatever governments return to us is but a fraction of what they have taken. A vast sum is lost in maintaining the government machinery. However, even if government did not lose anything in its attempt to redistribute the wealth, would it be justified in doing so?

To answer, we have to look at how the wealth was generated in the first place. If money has been earned on the free markets, it is the result of voluntary transactions.

The only manner in which a man becomes wealthy is for him to produce a product or a service which people find so beneficial that they willingly pay the price which provides a profit for him. Clearly people will not voluntarily pay the price if they do not obtain a value

from the product.

There has to be a meeting of the minds of a willing buyer and a willing seller without which no deal would be completed.

CARS AND THE EXAMPLE OF HENRY FORD

More simply put: You would buy a car for Rs. 150,000 if and only if the value you anticipate to derive from the car exceeds Rs. 150,000. Otherwise, you won't buy.

How much value do you derive from the car? You cannot say exactly. Perhaps you might even spend Rs. 500,000 if that be the minimum price at which the car is available, and if you expect to derive a value worth at least that much. On the other extreme you might not buy the car if it costs Rs. 150,001 – the value you place on it not justifying the payment of even one additional rupee.

Anyway, whatever its value, it would have to be above its price for you to buy it. This extra value over its cost is your benefit or surplus from the transaction. This is the *consumer surplus*.

Let us now view this transaction from the seller's perspective. There would be no surety that he has made a profit. A producer of goods or services, due to competition or availability of alternative products, will not have a free hand to charge as he pleases. This means that at times he may have a loss. However in the long run, stretching over several years, he will make a profit of cease operations. Anyhow, since the producer always has the option of not selling if he does not wish to, the only reason he will sell is if he is better off from the sale than without it. Thus the producer has also derived a benefit. This is the *producer surplus*.

If you were offered a job by the car manufacturer, you could refuse if you do not like the salary or other terms and conditions. You take it only if you believe that you will be better off accepting the employment than without it. You would continue to work as long as the remuneration and value you derive from the job is more than the minimum you would be willing to work for. The surplus obtained by you is the *employee surplus*. The company, if it does not derive a surplus by employing you, would not hire or keep you in employment for long.

What about all the other people who are dealing with the car manufacturer? To produce goods and services requires the cooperative action of many people – the management team, suppliers, bankers, shareholders and others. We can safely assume that whoever is dealing with the producing company is also deriving a surplus. In the absence of this surplus they would simply stop dealing with the company.

Thus we see that in the market-place in which government has not intervened, there are no losers, only winners. Everybody is better off. There is no exploitation. One person does not have to lose to make another person win. You, whether you are the consumer, producer or employee, are a winner deriving benefits from the market-place. It is the beginning of wealth for all: you have freedom of choice and have engaged in voluntary exchange.

Dr. Paul L. Poirot, Editor Emeritus of *The Freeman* said:

It is comforting to be a citizen of wealthy nation. But a nation is wealthy only by reason of the fact that resources are privately owned and controlled according to the rule, 'He gains most who serves best.' And the only way in which government can usefully serve such a society is to keep the market open, restrain and punish those who violate the rule, but otherwise let free men compete.

Garet Garrett wrote in the Winter 1949 number of *'American Affair'.*

We discovered that wages were not paid out of profits. They were paid out of production. Therefore, wages and profits could rise together, if only you increased production. Moreover, production itself created capital, as in the Ford example – the example of a company that began with $28,000 in cash and at the end of forty-five years employed in its work $ I billion of capital, all its own and all created out of production. And this was done by making the motor car so cheap that almost nobody was too poor to be able to possess and enjoy it.

When Henry Ford brought the car within affordable reach of the vast majority of American he did make a fortune for himself. However, the amount of money he made could only be a small fraction of the satisfaction derived by millions of people who purchased and owned the cars he built. The market-place rewarded Henry Ford handsomely but nobody bought cars to make Henry Ford rich, they bought cars because the value the car buyers derived was far greater than the price they has to pay to Henry Ford.

In such an instance where Henry Ford is a willing seller and the American population a willing buyer, would you justify intrusion of the government to either help Henry Ford or the consumer? Would there be any morality involved in taxing the American public and paying that money to Henry Ford? Clearly most people would find such a notion preposterous.

What about taxing Henry Ford and distributing that money back to the car buyers? It sounds good to the consumer, but why? Consumers have willingly paid the price - they were not forced to buy the car. Henry Ford did become wealthy, extremely wealthy but this happened because he catered to the masses and satisfied their need for relatively cheap transportation. Is it not perverse then to forcibly take large amounts of money and penalize people like Henry Ford? What are the moral grounds for demanding money back from Henry Ford?

Where is the justification to extort, steal, rob or otherwise force a man to part with what he has rightfully earned on a free market? None. Or is it our secret desire to gain something for nothing that enables us to justify this plain daylight robbery?

A theft remains a theft. it makes no difference if it is committed by a bandit with a gun aimed at you, or by the state threatening to jail you or confiscate you property.

It is preferable to be waylaid by a bandit than he taxed. A bandit cannot steal from you as often and as regularly as the taxman, you can take remedial measures and there is no pretence, hypocrisy or moral justification involved. When the state takes your money, it robs you regularly, with impunity. It even forces you to keep financial records, so that you do not try and hide your money.

If the state suspects that you are hiding sources of income or have accumulated unrecorded wealth, it may invade your privacy, raid your residences and offices, seal your lockers, freeze your bank accounts, seize your papers and documents, investigate you, confiscate your wealth and jail you. To add insult to injury, it is you who is made out to be the culprit, and lacking moral fibre in attempting to defraud the government. Lewis Caroll in *Alice In Wonderland* would not visualize an inversion of this magnitude- a world gone so topsy turvy.

GOVERNMENT IS INSANITY, GOVERNMENT IS FORCE

To be convinced of the lunacy that prevails in India, consider the case of a prosperous businessman who was kidnapped. The kidnapping was reported to the police but before they could find the kidnappers, the businessman was released. The police then discovered that a ransom had been paid. Instead of apprehending the kidnappers, the victim himself was prosecuted - by the tax authorities for tax payable on the ransom. "It was," said the victim, "like being raped twice".

What about the poor, the handicapped, the disadvantaged and those living below the poverty line? Should the state not step in to help them? It is impossible to adequately define or identify "who needs help and who doesn't", "who is poor and who is not". Any attempt to fix a poverty level and identify the poor would be purely arbitrary, result in social tensions and lead to large-scale corruption. A random check among Italy's 7 million certified invalids revealed that 40 per cent were fraudulent claimants costing taxpayers US$ 16 million. *Newsweek* of July 11, 1994 reported, "It is an open secret that... (Italian) politicians bought votes by conferring 'invalid' status on supporters".

Moreover, we find that yesterday's luxuries are today's necessities. Concepts of necessities and poverty vary from country to country and even within the same country. A car in the USA particularly in California, is an absolute necessity. In a third world country like India,

Nepal, Bangladesh or Ethiopia it is one of the greatest luxuries, taxed beyond limits imaginable by people in the USA. Even gasoline used in card costs almost thrice as much in India as it does in the USA - the differential being higher taxes.

What if a universal definition of the 'needy' was possible? Would it then justify the state's intervention to rectify the imbalance by helping those who need help, at the expense of those it deems can beat the burden? We must once again go back to the basics to answer this.

The government - as it does not produce anything and has nothing to give - cannot offer help to the needy on its own. It has to, and does, use force or its threat to deprive you of your income or wealth to transfer it to the needy. If somebody were to threaten you with a gun and take your cash to give to a beggar, since the beggar's need was greater than yours, would you justify this action? If not, then how can you justify the government doing the same thing.

The moment we regard the need of the needy as having priority over the right of the owner, we are on very slippery grounds. If you are not interested in a voluntary charitable contribution, the use of force, by the state or a modern day Robin Hood, is equally unjustified, immoral, and condemnatory.

Today, polities has become in exercise in providing us with promises to win votes. The leaders try to outdo each other in making pledges of development projects they would undertake, the houses they would provide, the hospitals they would open, the loans they would grant and the schools and colleges that they will inaugurate if elected. Increasingly we hear of the right of every person to education, adequate food and clothing, healthcare, employment, minimums wages, housing... The list is being continuously expanded.

If would be utopia if the state had access to an unlimited treasure trove from where it could provide everything we desire. Unfortunately, there is no hidden treasure. Health care, employment, leisure, houses, food, clothing are all man made and have to be produced before they are consumed. If the state has to provide anything it has to use coercion. Rights end where force begins. Man indeed has certain inalienable rights as long as they do not violate someone else's right. No one has the right to anything, which necessitates that someone would be forced to pay for it against his will.

We all have a right to engage in free trade, acquire, sell or own property, buy education for ourselves or our children, seek employment or hire staff, pay for and obtain health care, start a newspaper and express ideas if people would listen. There is no right to housing provided by someone else, no right to a job if no one wishes to recruit you, no right to health care at a price at which the doctor is not willing to diagnose you or perform surgery, no right to force a newspaper owner to print your views if he chooses not to, no right to demand a broadcasting channel or even a free loudspeaker to air your views. You have no

right to anything if you cannot pay the price at which a producer would voluntarily and without coercion part with his goods or services.

Ayn rand in *Capitalism the Unknown Ideal* says, "Any alleged 'right' of one man, which necessitates the violation of the rights of another, is not and cannot be a right".

Let us look at the effects of government intervention. I have said that it ought to be rejected on moral ground alone, Government actions involve application of force - the state has a monopoly over the legal use of force - for this and this reason alone its actions are immoral, unjustifiable and unethical. However, one could possibly argue that although the government's action indeed involve non-voluntary coercive method and hence are morally unjustified, does not the end justify the means?

If the government has to look after the underprivileged, the downtrodden and attempt to provide full employment, sickness benefits, education for all and pursue other equally justifiable objectives, is it not all right for us to be unprincipled and acquiesce in the use of force and immoral behaviour on the part of the government?

We have the lessons of history before. During the last century, perhaps we might not have had so much practical experience to call upon to justify capitalism. Today, we are familiar with the results of economic policies pursued by different governments at different times. We realize that government action, more often than not, end up in achieving exactly the opposite of their purported objectives. The road to hell is indeed paved with good intentions.

We have seen communist, socialist, - interventionist - countries crumble. We are witnessing where the Leninist doctrine of "from each according to his ability, to each according to his need" have led Eastern Europe and the former USSR. We are seeing China frantically looking for - and opening its doors to - multinationals and coveting capitalist Hong Kong. We find that Pakistan has rejected socialism and accords top priority to privatitzing the public sector. We are intimate with even our leaders rejecting the Nehruvian wisdom of the public sector achieving the commanding heights of economy.

Why this change of heart? Why are governments voluntarily relinquishing power although many seem to be doing it only rather grudgingly? Governments have accepted that the surest and the shortest way to ruin a country and its economy is to abrogate property rights, rights to trade and free enterprise and to become fully socialist, communist.

Think what would have happened if the Indian government had not sapped our income-earning potential with confiscatory levels of taxation; if the state's economic legislation had not shackled our productive producers in chains, if the public sector had not acted as a vampire sucking the nation's surpluses, if there were no mega budget deficits financed by printing notes (inflation) or acquiring mountains of debt. If it were not for these calamities

of the government, there would be unleashed a productive energy, a nuclear explosion of such creative power, as has never before been witnessed any where.

The advancement in living standards would be so rapid that present day welfare programmes would be rendered obsolete. People would find themselves catapulted into much higher income brackets making labour legislation and minimum wage law superfluous. There would be wealth for all.

As you read on, you will see how government has been holding back development, perpetuating poverty and keeping India at the beggar level with no economic clout in the world markets. Whatever progress has taken place has occurred despite our socialist interventionist governments.

It reminds me of what puzzled me when I was a stamp-collecting schoolboy. I was fold that India was a third world country. "Third World?" I asked. "Why" - Did not God make only one?"

India does not have to remain a third world country any longer.

2
THE AGENTS OF POVERTY:
TAXES, DEFICITS, INFLATION AND DEBT

For three long years I have been going up and down this country preaching that government.... costs too much. I shall not stop that preaching. - Franklin D. Roosevelt

...of all the contrivances for cheating the labouring classes of mankind, none has been more effective than that which deludes them with paper money. - Daniel Webster

Taxation is robbery. There is nothing voluntary about taxes. It is only coercion and force which prompts you to pay taxes. When wealth has been earned on the free markets featuring voluntary exchange, where is the moral justification for taxes?

Lifestyle guru, Dr. W.G. Hill in one of his privately-circulated treatises states:

Danger is something we want to use common sense about. The odds of being burgled or robbed at knifepoint in a place like New York City are very high... about three times per lifetime. The thief who redistributes your wealth, i.e. the contents of your wallet, to himself will generally not injure you. the losses from petty crimes are relatively small and can be covered by insurance. Compare this with the odds of having half your lifetime earnings stolen by government and similarly redistributed: what is the chance that you personally will have your income, dividends, interest and estate taxed? For our typical reader, it is 100 per cent! And you are robbed every day.

You and I are taxed on sale, production, purchase, expenditure, wealth, savings, death, recreation, property, gifts, dividends, capital gains and all other receipts or income. There is no activity which escapes the tax dragnet.

People become wealthy with one well run business. The government with its coercive power becomes a partner of every business in the country. This partner who does not work, takes no risk, has invested nothing and does not contribute in any way, will take its share - no matter what - by a wide variety of taxes mostly levied irrespective of your profits or

losses. You would then expect that the coffers of the government would be full. This is not so. No amount of taxes can ever fill the bottomless coffers of the government. Like Dracula's desire for fresh blood, the government desires fresh revenue at every turn. Modern day governments have outdone the rapacious rajahs of yesteryear. Who has heard of bankrupt rajahs going around the world begging for money? At least their treasures were always full.

India is not alone. Governments the world over (with some notable exceptions: Hong Kong, Singapore and certain Middle East countries) are pauperizing their populations with taxation and runaway inflation causing deficits. Between 1902 and 1980, US federal government spending as a percentage of national income increased progressively by a factor of nine. The USA today, despite the huge collection of taxes and massive borrowing, seems to be heading towards a $ 400 billion yearly deficit. Yes, that is over a full 12 lakh crore of rupees. In 1980, Ronald Reagan became President with a promise to curb government. Nothing of that sort every happened. A dozen years of Republican presidents saw federal spending rising from $ 678 billion to $ 1.5 trillion (Rs. 46 lakh crore). Growth languished and recession continued. In 1992, Bill Clinton managed to throw out the Republicans.

This was not always so. For about 150 years during the 19th century and the first half of the 20th century, the federal government in the USA spent only three per cent of the country's national income. *The rest remained in private hands*. During this time the American population grew from five million to 125 million and an industrial revolution in the USA not only transformed the country but became an engine of growth for the entire world. Earlier it was not the USA but Britain which bestrode the world like a colossus - an empire where the sun never set. The USA during this period not only overtook Britain but went on to become the greatest power ever in human history. This was the miracle of free enterprise. The USA should now be progressing faster, having a much better developed industrial base. But a strong centralized government with expenditures almost totally out of control has ended those heady days.

Let this be a lesson for India. It is not a centralized government levying heavy taxes which will lead us to fortune, but private enterprise, unburdened and unhampered by the shackles of unlimited taxes.

Look at some of the major taxes being collected by our government. The list is monstrous.

- Income tax, wealth tax, capital gains tax, death duty, gift tax
- Property tax, transfer tax, registration tax, stamp duty
- Customs duty, excise duty
- Sales tax, expenditure tax, entertainment tax, octroi.
- Tax at source on salaries, contracts, dividends, interest.

These taxes are ultimately all borne by you and I, the common man, whom all politicians profess to live. If the government only taxed the wealthy, it would hardly be able to finance its expenditure for a week. The number of Indian taxpayers who declare a yearly income of over Rs. 1 million is less than 25,000.

The mainstay of tax for the central government is the customs and excise duty which directly increases the cost of goods for both the rich and poor. Income tax contributes barely six per cent while taxes on wealth contribute hardly anything. The inequity of the income tax is exacerbated by the inordinately high rates (among the highest in the world) reached at low levels. A salaried employee earning over Rs. 10,000 a month is put in the same bracket as those earning millions. The businessman has all the opportunity to plan and evade while a salaried employee pays as he earns - at source! For the state, sales taxes are chief revenue earners, a tax which is also borne directly by the consumers, rich and poor alike.

Even if you do not pay income tax, you certainly pay taxes in many other forms. Taxes are hidden in the cost of all the goods we buy, and the element of tax is high.

Economist D. H. Pai Panandiker wrote in the Hindustan Times (November 18, 1986):

Price is tax plus cost... a little uncharitable comment. Certainly the element of tax in price is quite high. Take tyres and tubes. About half is tax and a half is cost. Take again nylon fabrics. About three-fourths is tax and one-fourth is cost. But these are other products which bear a lower rate of tax. Generally, what government things are luxuries is left for government to decide. "Nylon?" Everyone in every country would sneer. They look for cotton. Here it is the other way round. And government taxes nylon fabrics to the hilt.

...on an average, about 47 per cent of the price is tax and 53 per cent is cost...

Take a commodity like toothpaste. I am not thinking about cars - a luxury, or cigarettes and alcohol - vices, but about something of ordinary use by the common man. Colgate, the toothpaste manufacturer pays duty on the import of capital equipment, spares and raw materials. The phenomenal amount of excise duty exceeds the cost of production. Taxes are paid on the salaries of its employees. Corporate income taxes and surcharges take away 50 per cent of what is left for the shareholder, who is taxed again when he receives his dividends. Local suppliers charge a price which includes the tax burden on them. The finished product is then subjected to central and state sales taxes. By the time you go to the market and buy the toothpaste, the price you pay bears no relation to the intrinsic tax free

value of the tube and its contents.

That is why we receive a shock when we go to one of the low tax - and hence high income - countries and find out how cheap the goods are over there. With our tax structure, there is no hope that the vast majority of our countrymen would ever enjoy what are daily necessities for people in the developed countries.

India even after the 1994-95 budget, which was certainly one small step in the right direction, still has hundreds of different excise and sales tax rates. Other countries with VAT have perhaps 3-4 rates of taxes. Denmark has 1 rate, Japan has 2 while France has 4.

The 1991-92 budget raised prices of practically everything from cooking gas to sugar, from cigarettes to TV sets, from eating out to air travel... Mrs. Manmohan Singh, the finance minister, stated: only the rich travel by air, I am not worried about them. Sadly it seems that the government will make sure that only a minuscule minority will ever experience the wonder and convenience of air travel created 90 years ago. The finance minister went on to say, "I must apologize to all the housewives but I could not do otherwise." So much for the wisdom of soaking the rich to help the poor. Unfortunately for the housewives they have to balance their budgets, unlike Mr. Singh.

The *Indian Express* reported on March 26, 1994 - "The company (Maruti) has been a major revenue contributor too. It has so far paid Rs. 4578.11 crore as customs and excise, Rs. 70.95 crore as corporate tax and Rs. 31.30 crore as dividend." The figures speak for themselves (taxes are 150 times dividends) and tell a sorry tale of Indian government's policies. In the USA cars became so affordable that it was within the reach of every person. In India our government treats car companies as a means to collect revenue. Over 60 per cent of final price of a car is taxes.

No taxation without representation became the slogan of the masses during Gandhi's famous Dandi March defying the British for levying tax on salt. Today we have our own representatives - and taxes at a level which Gandhiji would never ever have imagined the British levying. Government - so it unhappily seems - will continue to perpetuate high doses of taxation and keep people mired in perpetual poverty.

America also battled against the British and their taxes. Lyndon B. Johnson, a former US President, said: "In 1790, the nation which has fought a revolution against taxation without representation discovered that some of its citizens weren't much happier about taxation with representation."

In the much praised budget for 1994-95, Mr. Manmohan Singh increased the initial income tax exemption to Rs. 35,000. In 1981, the threshold for income tax was Rs. 15,000. In terms of today's buying power this would equal Rs. 48,000. This is an example of how taxes go up and more persons fall into the tax net even as legislation gives the appearance of a

downward movement. Inflation does the job, by camouflaging tax increases. This is the government at its devilish best usurping what is rightly outs.

Individuals in India start to pay taxes at the highest slab at an income of about Rs. 100,000 (US$ 3,200) per annum. This is considered much below the poverty line in the USA, and would entitle you to welfare. Companies do not have any initial exemptions. The ridiculous taxation policies make it especially difficult for small companies and businesses to legally accumulate capital for expansion.

Whatever capital is accumulated, is out of the books. Perhaps as a much as 25 per cent of India's gross domestic product is never accounted for. This money, which could have been reinvested in business and created jobs and wealth, finds its way abroad to secret Swiss bank accounts if not spent on outrageously lavish parties. Bombay flat deals are half black, half white; cars, businesses, foreign liquor, are all traded with a significant amount of black money.

In 1989, I met a Pakistani businessman in Las Vegas. He mentioned casually that he had just lost US$ 200,000 at the gaming tables - and appeared completely unperturbed. He could not afford to put it back into his business in Pakistan because if the tax collectors found the source of income, they would tax him in perpetuity. This would cost him many times more than the $200,000 he had lost. So he had to lose it.

The government under Nawaz Sharif in Pakistan changed course. Money, even drug money, could be brought into business with no question asked. The thought behind this - if the authorities were to ask about the source of drug money, they would ensure that money remains invested in drugs. Benazir Bhutto seems to be sticking to these pragmatic policies.

LUDWIG VON MISES WROTE IN *HUMAN ACTION:*

Today taxes often absorb the greater part of the newcomer's "excessive" profits. He cannot accumulate capital; he cannot expend his own business; he will never become big business and a match for the vested interests. The old firms do not need to fear his competition; they are sheltered by the tax collector. They may with impunity indulge in routine, ... lt is true, the income tax prevents them, too, from accumulating new capital. But what is more important for them is that it prevents the dangerous newcomer from accumulating any capital. They are virtually privileged by the tax system. ln this sense progressive taxation checks economic progress and makes for rigidity....

The interventionists complain that big business is getting rigid and bureaucratic and that it is no longer possible for competent newcomers to challenge the vented interests of the old rich families.

However, as far as their complaints are justified, they complain about things which are merely the result of their own policies.

A few years ago, my uncle died, leaving my aunt, with financial problems which brought home to me just how our heartless, unjust government penalizes everyone.

My aunt thought herself lucky to have a rental income of Rs. 66,000 every month. Over a period of four years she received enough property, income and other tax demands to reduce her income to Rs. 9,900 per month. The reality - as I explained to her - was even worse. When she made purchases like petrol, toothpaste, clothes, etc., she was paying a further Rs. 6,000 every month in taxes inbuilt in the cost of these goods. Shockingly, from her rental income of Rs. 66,000 a month she was getting a taxfree value of just Rs. 3,960 a month. This is by no means unusual where people can't hide their incomes. The combination of property, income, wealth and other taxes can sometimes exceed the total income.

Taxes do indeed make us all equal. They make us all paupers. The dice are heavily loaded against all those who cannot conceal their incomes, such as the wage, rent, dividend or interest recipients. In most cases taxes are deducted at source.

There is nothing egalitarian - and everything discriminatory - when the tax burden falls on those who do not or cannot hide their incomes. Businessmen who never declare their full incomes frequently escape with lower taxes than the poor wage earner taxed at source.

Is it any wonder that my aunt does not even want to talk about investments if returns have to be accounted for? When I met her again in June 1994, she told me that for the last 3 years she had kept her property vacant. The taxes & rent control acts simply did not justify letting it out. What a horrible waste of capital assets in a poor country like ours. Her eldest son is determined to go abroad and earn money tax free rather than waste time and money in India fighting the tax man. He correctly sees taxation as unjust, leaving no capital for investment, expansion or even charity.

For his feat of raising revenue for the governmental without seeming do so, Mr. Manmohan Singh was called a magician by India Today (15 August, 1991). The 1991-92 budget reduced Rs. 500 crore in import levies by cutting duty rates. Customs revenue was, however, projected to rise by a walloping Rs. 5,100 crore, or over ten times the supposed reduction. How? Largely due to the 20 per cent devaluation of the rupee. Higher import costs in rupees result in higher customs duties. There is nothing novel about this form of collecting revenue. This time the effects were too obvious to be missed.

Governments have always gained at the expense of citizenry by creating worthless paper and calling it money to finance its deficits. Tax payers are hit with a double whammy. On one hand there is inflation - your rupee buys less and less. (All of us have heard stories from

our grandparents and parents about the cost of living in the good old days.) On the other hand inflation leads to proportionally higher customs duties, excise duties, sales taxes, property taxes... Income tax payers face a further double whammy. Their taxes go up even if the increase in their income barely compensates for inflation and, as if that was not bad enough, they are also pushed into progressively higher tax brackets. This is the way of our magician finance minister; get the funds without even legislating new taxes.

The magic is of course an illusion. The tax comes out of our pockets whether it is legislated, collected directly or hidden in the cost of goods we buy. The government printing presses may continue to churn out worthless paper (Money) or the government may acquire a Mount Everest of debt. It is we who bear the burden.

It is difficult to comprehend the debt acquired by the Government of India. Let us look at the figures -

External Debt

Owed to other countries and non-resident Indians (reported in

Economic Times of June 19, 1994):approx. Rs. 279,000 crore

US$90 billion

Internal Debt

Owed to our own countrymen: approx. Rs. 320,000 crore

Total: Rs. 599,000 crore

The figures boggle the mind. To put matters in perspective, if a fifty per cent tax was paid on the entire Rs. 100,000 crore of the estimated black money, national debt would not be dented by even 10 per cent.

Nani Palkhivala in his budget speech for 1994-95 telecast on Zee TV on March 6, 1994 put the annual interest burden at Rs. 48,000 crore. This constitutes 53% of our government's budgeted expenses and is much higher than the allocation for defence.

It is doubtful whether anyone can fully realize the enormity of the amounts involved. Stalin said "one death is a tragedy, one million deaths, statistics". Lest these figures become one more statistic, let us understand that the net worth of all companies big and small in the

private sector would not be sufficient to pay even the interest on this amount for year. If this money constituting the national debt were to be put into suitcases each holding one million rupees then it would require 6 million such suitcases. And if these suitcases were kept next to each other two lines could be formed - one extending from New Delhi to Kanyakumari and another from Bombay to Calcutta! That is one million rupees every pace of the way.

Wonder where the money went? This debt is totally unlike a debt taken by a private company which gets invested in revenue earning assets. Government debts usually go to finance its current expenditure. Future taxes - on us and on our children - will bear the burden of repayments. The amounts borrowed by government reduce the amounts available with us. These are the funds which could have gone to build industries, homes.

We constantly hear about the credit squeeze. While industry is starved of funds, government's profligacy knows no bounds. Government today is pre-empting over 60 per cent of bank funds in the form of cash and liquidity reserves. Further priority sector loans constituting 40 per cent of total lending have to be at 'soft' rates of interest. Banks have to make money on what little they can lend to private businesses. No wonder, interest rates even after the 1 per cent reduction in the 1994-95 budget are still at 14 per cent. In western countries the equivalent rates are generally 6 per cent.

As far as internal borrowing is concerned, there is one golden lining for the government: inflation, government will repay you in cheaper and cheaper rupees. The longer it delays the more it gains. By printing notes to finance its deficits the government debases the value of the rupees you are holding. If prices rise 20 per cent in a year then every rupee of yours at the end of the year, whether in your pocket, bank or loaned to the government, is worth only 80 paise. This is another hidden tax which is never legislated.

JOHN MAYNARD KEYNES SAID ABOUT INFLATION IN 1920:

There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

All these taxes require a vast army of bureaucrats, tax experts, lawyers, courts and accountants to administer, seek loopholes, collect, estimate and file returns. Some of the best brains in the country are occupied in planning taxes, evasions, and in dodges and scams.

For the businessman it makes sense to pay as much attention to saving tax as it does to increasing earnings or cutting costs. If a company can increase its net earnings by a million

rupees or cut its taxes by a similar amount, which option would it prefer? Saving a million rupees by cutting taxes is better because additional earnings too are taxable and you have to earn two million to have a million left over after tax.

JUSTICE LEARNED HAND SAID IN 1934,

Anyone may so arrange his affairs that his taxes shall be as low as possible, he is not bound to choose that pattern which will best pay the treasury, there is not even a patriotic duty to increase one's taxes.

What makes sense for an individual or a company, is a horrendous waste for the nation as millions of man-days are spent in creating paperwork and in the study of extremely complicated tax laws. This mammoth wastage of human resource - of brain-power - amounts to yet another hidden tax. The energy frittered away on paperwork could have been productively channelled into construction of houses, factories, industries or infrastructure. Money and time saved could well have been spent on art, music, drama, anything where creativity would have enhanced our quality of life benefitting us all.

3
TAXATION AND INHERITED WEALTH

The hardest thing in the world to understand is the income tax.

- Albert Einstein

The power to tax carries with it the power to embarrass and destroy.

- Supreme Court of the US – Evans V. Gore, 1920

One of the arguments most frequently heard against capitalism is that it perpetuates riches and poverty. The rich get richer, the poor, poorer. Inheritance – the passing of property to heirs – is the focal point of criticism whenever capitalism is discussed. Don't the children of the rich have an unfair advantage over those of the poor?

Before considering this, we must ask ourselves whose rights are we talking about. The heir's right is derived and secondary. Unless and until the property in question passes to him, he has no rights. It is the right of the original owner which is direct and primary. Does that person have the right to dispose off his property in the manner he chooses? If you abrogate the right of inheritance you are terminating the right of the producer of wealth. Those who speak against inherited wealth are not so much against the inheritors. They are questioning the more fundamental right to own property itself, since without the right of disposal no real right of ownership exists.

The owner has full rights to enjoy his property. These rights extend to its disposal during the owner's lifetime or after his death. Without these fundamental and inalienable rights the owner cannot truly be called an owner.

Countries like the former Soviet Union had a system where no property rights were supposed to exist. The words 'supposed to' have been used because even the purest ideologists have discovered that without some form of property rights no social structure can exist. Consider what would happen if the clothes you wear and the food in your house were not your property. Logically then, if somebody were to take them away there is nothing you could do about it.

Other countries – whether they be in the west or east – all levy varying degrees of tax on

the estates of deceased persons. Why should the state have a stronger claim on the estate than the heir? It is true that the right of the heir is derived. It is also true that the heir may have done nothing to deserve the property in question. But then, is it not equally true that the state or society has absolutely no intrinsic right whatsoever? It has done nothing and cannot do anything to justify any claim on the property. The owner wanted the property to pass to the heir not to the state. The state merely confiscates a portion of the property because it alone has a monopoly over the use of force.

Up to March 1985, India had one of the highest rates of estate (inheritance) duty. The tax rate, where the estate value exceeded Rs. 20 lakhs, was 85 per cent. Consider this rate and hold your breath; 85 per cent of all the property you owned at the time of your death would have gone to the state! Your heirs would receive 15 per cent!

Consider further that your assets are not likely to be in cash. They may be in real estate, financial holdings, etc. the result – you would have to sell off your house, shares or other assets to pay off the state. More horrifyingly, inflation keeps increasing the illusory and taxable value of your estate. Over a life span every house owner would have been pushed into the 85% tax bracket.

The advocates of a confiscatory estate duty profess their love for the common man and say that this tax is aimed at millionaires and against the spoiled inheritors. It is a source of irritation to the 'spoiled inheritors', but whom does it really harm the most? The small businessman, the hardworking shopkeeper, and the reasonably successful executive, all of whom accumulate some capital during their life and would like their heirs to carry on from where they left off. These are precisely the people who bear the brunt of the anti-inheritance laws. They have had no time to plan out estate-reducing gifts to their heirs during their life. They may not have even been aware of the necessity to plan for taxes after death. How many children, given our culture, can talk to their parents about this morbid topic of saving money and death at the same time?

The super-rich against whom these laws are ostensibly aimed, start tax planning before their heirs are born. They have at their command the best tax brains in the country. By means of gifts given every year and kept below a certain amount, the rigours of the anti-inheritance laws are avoided. So, when some politician advocates the confiscation of a person's property upon death, you can understand against whose interests he is talking. Whatever his concern may be, he is certainly not speaking out of love for the common man. These are precisely the laws which make it impossible for a capable but poor family to catch up with a rich family.

This tax together with the taxes on income, capital gains, wealth and gifts all discriminate against those who have achieved something in their own life. The heir may even have run, expanded and added real value to the family business. If, however, the property remained in the name of the father, then as soon as he dies, the tax man may well

kill the enterprise.

Government collects less than two per cent of its revenues from estate duties, gifts and wealth taxes. This shows the efficiency of the Tatas and Birlas in planning their lives to minimize the impact of taxes. The tax axe falls on you and I.

For wealth and property tax purposes the value of one house is frozen at purchase price. If you are staying in an old palatial house – no tax. If you buy a two bedroom house at today's inflated values you automatically become a tax payer in most big cities. The inequity of these taxes have turned them into a disgrace. The burden falls precisely on those least qualified to bear it.

In April 1985, After Rajiv Gandhi became Prime Minister, the irrational and confiscatory estate duty was abolished. Regrettably it has been reintroduced though in a much watered down form as death duty. Society owes a debt to people who have had to give up 85 per cent of their estate – this debt can never be repaid. Many, in an effort to pay off the government, and save their assets took back-breaking, ruinous loans which ultimately destroyed them.

Nathaniel Branden – a one time associate of Ayn Rand – says, in an article entitled *Common fallacies about capitalism*:

If an heir is worthy of his money, i.e. if he uses it productively, he brings more wealth into existence, he raises the general standard of living – and, to that extent, he makes the road to the top easier for any talented newcomer. The greater the amount of wealth, industrial development, in existence, the higher the economic rewards (in wages and profits) and the wider the market for ability – for new ideas, products and services.

The less the wealth in existence the longer and harder the struggle for everyone. In the beginning years of an industrial economy, wages are low; there is little market yet for unusual ability. But with every succeeding generation, as capital accumulation increases, the economic demand for men of ability rises, The existing industrial establishments desperately need such men; they have no choice but to bid ever higher wages for such men's services – and thus to train their own future competitors – so that the time required for a talented newcomer to accumulate his own fortune and establish his own business grows continually shorter.

If the heir is not worthy of his money, the only person threatened by it is himself. A free, competitive economy is a constant process of improvement, innovation, progress; it does not tolerate stagnation. If an heir who lacks ability acquires a fortune and a great industrial establishment from his successful father, he will not be able to maintain it for long; he will not be equal to the competition in a free economy, where bureaucrats and legislators would not have the power to sell or grant favours, all of the heir's money would not be able to buy him protection for his incompetence; he would have to be good at his work or lose his

customers to companies run by men of superior ability. There is nothing as vulnerable as a large mismanaged company that competes with small, efficient ones.

The personal luxuries or drunken parties that the incompetent heir may enjoy on his father's money are of no economic significance. In business, he would not be able to stand in the way of talented competitors or serve as an impediment to men of ability. He would find no automatic security anywhere."

In India, up to the time of the Narasimha Rao's government, no industry could be set up without a license. The number of licenses was limited. When the government decided that the licenses issued were sufficient to meet the country's needs, there was a ban on any further issue. Inherited wealth was used to buy many of the licenses. In a controlled economy nothing kills competition more effectively than the purchase of the right to manufacture. With one action all potential competition is wiped out. The result: industry was run not by men of ability but by those who could buy politicians.

The rich descendants of the doyens of Indian industry were the biggest culprits. They cornered the licenses and then sat on them, hatching them in their own sweet time, if at all, knowing that nobody else would get the license. These so-called industrialists, who would have been wiped out by fair competition in the market place, got richer year after year. This was not because of the wealth which they inherited, but because of their influence over the government. This influence, which eliminated competition, was built by bribes, handing out of funds during election time, and other similar means. Guess who is objecting most loudly against the present liberalization? Not you and I who are happy with the better choice of goods, but these very industrialists who thrived at our expense under government granted privilege.

True, there have been entrepreneurs who have made good despite all these obstacles. Dhirubhai Ambani is a name which stands out. He challenged the Indian textile industry and shook its foundations. While the whole industry was suffering losses (due to crippling government policies), Dhirubhai formed an empire which today produces more than any other unit in the country. It alone has the potential of being the first Indian company in the private sector to join the *Fortune 500* list of the 500 biggest companies outside the United States. And all this in two decades.

What do you think would be the most exceptional talent of this man? Which quality do you think would have been most responsible for his famed 'Midas touch'? Would it be tremendous management abilities, exceptional organizing capabilities, or extraordinary engineering talent? Yet, alas, he says that managing the government is of such crucial importance that all else takes a back seat.

In a free society, progress will be made by men of exceptional ability – be it in management, engineering, finance or whatever. In a resulted economy all this pales into insi

-gnificance. It is your dealings with the government, the bureaucrats, which become the prime factor. However exceptional you may be, you have to be able to influence government decisions before you can become productive. How many projects have been killed because of this and how much the country and its people have had to pay for such regulations, no one can say. The potential entrepreneur and those he might have hired have no lobby, no voice.

Anyone who says that big companies, however inefficient, can crush smaller ones by their sheer financial might has only to look at what is happening in the USA which had relatively fewer economic restrictions.

IBM is one of the best-run, leading manufacturer of computers in the world – 1990 turnover US$ 69 billion. This did not stop Apple, a company started in a garage, with almost no capital, from being the first to launch personal computers and achieving a turnover of US$ 5.5 billion in 1990. In a matter of seven years Apple was placed in the *Fortune 500* list. This record growth has seldom been surpassed and it was achieved in the face of fierce competition from the giant IBM. It took IBM several years before it could successfully market its own line of personal computers.

In Fortune of July 15, 1991, Carol J. says that IBM will "make less this year in regular profits... than it did a decade ago, when it earned US$ 3.3 billion". It says also that IBM stock lost US$ 42 billion in value since 1986 and its share of the computer market slipped from 30 per cent in 1985 to 21 per cent in 1990.

In the *International Herald Tribune* of November 20, 1991. Evelyn Richards said that IBM "has struggled with a trade-offs of being big – five times the size of its nearest competitor.

While it can offer customers a wide range of products anywhere in the world, the bureaucracy needed to set sales strategies, marketing programs and technical direction has slowed it down ... 1991 sales are expected to drop for the first time in more than four decades.

Imagine if Apple and other smaller companies which today are proving to be the nemesis of IBM in many areas had faced a horde of industrial licensing and other government approvals – it is doubtful if they would even have started. It is government created hurdles be it licenses or taxes – which protect big companies from competition from smaller newer more innovative companies, not inherited wealth. All the inherited riches of IBM's Watson family could not protect it from Steve Jobs who started Apple without capital.

Summing up can best be done in the words of Ronald Reagan (June 1985) responding to criticism that the tax rate being proposed by his administration was too little and favoured the rich. "We are reducing tax rates not for the benefit of the rich but to give an opportunity to every American to be rich.

This chapter is based on articles written by the author titled *Capitalism, Myth and Reality* published in the *Hindustan times* of 23 October 1986 and the *Himachal times* of 8 December 1986. The example of IBM & Apple merely proved what was written earlier.

4
WHEN IT COMES TO INDUSTRY AND TRADE YOUR RIGHTS DON'T COUNT

The people are happy when the king is far. – a Chinese proverb

The Merchant has no country – Thomas Jefferson

The government, under the guise of 'helping the poor', 'protecting the common man' and 'generating economic prosperity and growth' has become involved in all aspects of business. The objectives and intentions are fine but what is achieved is exactly the reverse of what is intended.

Controls breed more controls. Controls lead to results which are quite removed from the original objective. Then, government in a desperate attempt to mitigate the unintended ill effected institutes still more controls. The ending is the same. Businesses are throttled and productivity sacrificed. The country remains unattractive for work or investment. Whoever can go to other lands, where opportunities are better, does so.

Ayn Rand says in *Capitalism The Unknown Ideal*:

The fact is that motives do not alter facts. The paramount requirement of a nation's productivity and prosperity is freedom; man cannot – and, morally, will not – produce under compulsion and controls.

In India, myriad controls and detailed regulations designed for noble ideals succeeded only in choking business activity. The dismal failure of the country to develop was in no

small measure due to industrial policy and licensing, and trade controls.

INDUSTRIAL POLICY AND LICENCING

We stand for democracy and socialism", declared our revered founding father Jawaharlal Nehru shortly before his death 30 years ago. *Asiaweek* of July 6, 1994, calling Nehru "a failed idol" reported:

The democracy he (Nehru) spoke of was modern India's enduring triumph, the socialism its greatest calamity. 'Panditji,' as he was affectionately known, is still a towering figure in world history, but his socialist legacy is a lasting curse upon his homeland. Nehru, like Lenin and Mao Zedong in his early years, believed that the guiding hand of government could provide the masses with all the good things of life. He sincerely believed what free-marked economists from Adam Smith onward had known to be impossible: that food and clothing, a decent house, health services and jobs could be guaranteed by sharing out the wealth of nations.

The only people in India who enjoyed material fulfillment were those who escaped the stifling clasp of socialism through their own industriousness or by inheriting wealth. Neither was easy under the Congress party in the 1950s and 1960s. Profit was a dirty word. Millions came to think of businessmen as social parasites. That multinational companies were greedy blood-suckers was a Congress tenet that traveled well in the developing world. Nehru believed that the cost of adversity and the inequalities of birth could, and should, be evened out by taxation.

Nehru's objective in legislating the Industrial (Development and Regulation) act, 1951 with Registration and Licensing of Industrial Undertakings rules, 1952 was virtuous – to direct scarce resources towards planned economic development. The results have been evil. *Asiaweek* of July 6, 1994 talking of this Act says "(It) established a Licensing Commission to shackle entrepreneurs. Manufacturers had to get approval both to expand profitable plants and close unprofitable ones… Tariffs kept foreign manufactures out and local industry inefficient." reported the same issue of *Asiaweek*. "Per-capita income in South Korea, once lower, is seven times that of India. It is time to look Nehru's image in the eye and ask: What have you wrought?"

When government arrogates to itself the right to decide which projects will come up and who will run them (licensing); which enterprise will make the products (item reservation for small scale); where the projects will be located (zoning); whether the enterprise can buy from abroad (import policy); whether foreign capital can be employed (FERA – Foreign Exchange Regulation Act); whether the enterprise can expand (licensing, MRTP – Monopolies and Restrictive Trade Practices Act); whether the business can market its products at the price it wants (price controls); whether foreign technical experts can be employed (visa and immigration laws); whether and when a company may issue fresh

capital (company law, MRTP, FERA); then the objectivity of the market place is completely lost.

The market forces serve as a beacon for private enterprise. Capital and entrepreneurial skills move to areas where they can be best rewarded. Resources cannot be allocated efficiently by the government. The hundreds of millions of bits of information for doing this can be co-ordinated only by the price mechanism functioning under voluntary exchange.

George J. McManus in *Defense of Prosperity* says,

Competition in a free system provides a means of policing the process. This is a far more effective check on avarice than any form of regulation. Apart from the question of effort, the enormously complex business of delivering the right product to the right place at the right time requires a multitude of decisions. In Russia, where the state controls distribution, stores wind up with toothbrushes and no toothpaste. In the United States, where companies respond to the free market, there is an amazingly precise meshing of supply and demand.

The system works. It is superior to any system yet devised.

India's share of world trade shrunk steadily from 1.4 per cent in 1950 to 0.4 per cent in 1990. Consumers in India have been denied goods of international quality. Cities have degenerated into slums housing much of the population in unbelievable filth and squalor. Many drugs and medicines are not available in India. The Indian rupee buys less and less at home and is now worth even less abroad. This is the catastrophic result of legislation and five year plans: *planned poverty*.

India's economic policies seem to have been inspired by *Alice in Wonderland*. Things are… and yet they are not: grotesque contradictions abound. The MRTP Act seeks to promote competition (attempting to mandate competition through government controls is bizarre to say the least) while industrial licensing seeks to restrict it. Exports (enjoyed by foreign consumers) are subsidized while imports (enjoyed by our country's consumers) are banned or restricted and heavily taxed.

Over 600 items are reserved for manufacture in small scale and yet when it comes to most of the mammoth public sector undertakings bigness is protected and the private sector not allowed to compete. Increased employment is sought and yet private sector proposals, which would create productive employment, face endless hurdles in chasing after approvals from our bureaucrats and changing regimes.

More often than not government departments work at cross-purposes. The left arm of authority may be strongly supporting a proposal while the right may be equally vehemently opposing it. Pepsi cola was favoured by the Ministry of Food. Coke was opposed by them. The Ministry of Industry was antagonistic towards Pepsi, the Ministry of Commerce supported Coke. Pepsi was approved first. The multitudinous conditions attached to the

okay did not let the company perform to its real potential. Coke after a long and bitter struggle with authority, is now battling Pepsi in the marketplace – that is where the battle should have been fought in the first place – not in corrupt corridors of the government.

The delays (often resulting in death-knell) involved in taking a project through the bureaucratic maze are a tax on us no less than the ones we pay directly in rupees and paise. FICCI (Federation of Indian Chambers of Commerce and Industry) studies revealed that just one year's delay in clearing private enterprise projects cost the nation over Rs. 17,000 crore in lost production.

It took three years of intensive lobbying and follow up for even Bajaj auto Ltd to raise capacity in one of its plants. According to the chairman, Rahul Bajaj, who called the licensing system a nightmare, the government sanctioned 30 per cent of what his company had asked for. If this is what happened to a project pushed by a mammoth Rs. 1,200 crore turnover company, which could afford a battery of lobbyists working 24 hours, you may imagine the problems a smaller company or a start-up entrepreneur had to face to obtain approvals.

Ironically during this entire period, the company's two wheelers (scooters) were in such great demand that the government controlled distribution and price, with those paying in foreign exchange getting priority allotment. A huge blackmarket thrived for the company's products. Talk about the government protecting the consumer!

Stephen A. Caswell, Vice President of Incomnet of California, told *Business Week* (June 5, 1989),

In North America, we're used to a free-wheeling business environment where a company can basically set up shop and go to work. The few permits required to do business are typically available within several days. In India, permits can take months or years – it took Incomnet two years to get its requisite permits… The bottom line to doing business in India is patience.

By the time a company obtains its letter of intent, registration, import clearance, foreign collaboration clearance, MRTP approval and license, a minimum of two years could elapse. In many case clearances are never obtained. The Thapar Group after wasting five years still could not get the 'go-ahead' for manufacture of Nylon 6.6 which was to be used as an input for high quality tyres. The project went through five regimes and was sometime ago pending with the government of Mr. Narasimha Rao which wanted to review all approvals by the previous regime. Now, Goa State wants to carry out an environmental impact study!

Licensing requirements became battlegrounds for politicians and industrialists. Each group tried to push his project and block that of a rival. For an industrialist it made more sense to delay or block a competitor's enterprise than compete. It also makes great sense to obtain a ban on imports of competing products. The result was and is the unseemly spectacle of our 'nexus of politician-businessmen' pursuing their agendas of support and

opposition to various undertakings. The vehement opposition of our local soft drinks manufacturers to Pepsi is only one such example. Instead of fighting it out in the marketplace 0 a fight which would result in incredible gains for us as the consumers – the fights occur in the murky corridors of bureaucrats and politicians.

The country was brought to such a sorry pass that the government finally relented and abolished many of the bureaucratic hurdles. The 1994-95 budget also reduced taxes somewhat. It has still not gone the whole hog as it has retained licensing for 18 industries and a modicum of controls on others. More foreign investment approvals have been granted since Narasimha Rao came to power than in all the years since independence and yet this is only a fraction of the potential that exists. In spite of only trivial measures compared to what can be done, the stock exchanges throughout the country are soaring to record highs. This just shows how back-breaking the burden of licensing and clearances on our companies was, and how much it depressed the value of our productive enterprises.

Why has there been only a substantial decontrol and not a total one? Why does the government still retain licensing procedures for 18 industries? Is it because these industries are too important or totally unimportant? If they are too important then wouldn't it make more sense to decontrol them and free them from the stifling hand of regulatory bodies? This after all is the argument given for freeing the other industries. If they are not important enough why bother controlling them? Consistency does not seem to be the strong suit of politicians.

Bureaucrats and politicians rarely give up power willingly – remember the desperate coup in Moscow with the last ditch effort made for preservation of status quo by the communists. In India, one example of bureaucracy showing a tendency to grow, grab more power and refusing to let go is afforded by the DGTD (Directorate General of Technical Development). Originally set up to advise the government it did little else than impede growth and put one burdensome hurdle upon another on private enterprise. The government then abolished licensing requirements and changed the DGTD into a registering body. It, of course, lost no time in coming up with such a cumbersome registration procedure that it was almost like licensing.

I am not of a violent nature, (my only Gandhian trait) otherwise, I would be sorely tempted to advocate a Rambo style shooting of all tax collectors and regulators.

Tavleen Singh writing in *Indian Express* of June 19, 1994 says-

Ask any Indian businessman, big or small, what his biggest problems are and he will provide you with a long list of babus who continue to harass him at every step he takes. The license raj may have been put under control but the inspector raj has not and these inspectors spend all their innovative energies thinking of ways to create more obstacles in the path of entrepreneurship and enterprise. They have yet to unlearn the lesson of Nehruvian

socialism that profit and competition are bad things.

If the government is indeed serious about reforms it must squash all controls, abolish all licensing requirements, repeal all policies and not just do a piecemeal job. There must be wholesale slaughter, not just some killings here and there. The bureaucracy that goes along with it should also be would up. Licensors and inspectors must be sent home, if necessary with lifetime pensions matching their salaries. The nation can bear the burden of paying them for doing nothing but not of paying them to put all kinds of obstacles, imaginable and unimaginable, in the path of our productive men.

TRADE CONTROLS

Country after country has adopted controls on trade and currency. The degree of rigour varies – from the all-pervasive blanket controls which exist in communist North Korea to the freedom of Hong Kong. The justification for these controls is centred around the laudable objectives of protecting home industries, generating additional employment, conserving scarce foreign exchange, and the like. The validity of these claims is taken for granted. Any idea challenging the perpetuation of this falsehood is shrugged off as naïve.

The "Theory of Comparative Advantage" is universally accepted by economists. It demonstrates that trade benefits each country. Any barrier which hampers the free flow of goods results in reducing the potential benefits of free trade.

This is not just theory – its veracity has been amply proved wherever market forces have had free rein. To realize what India has been losing by government controls inhibiting free trade, we only have to look at Hong Kong – a virtual speck on the world map. It has a volume of international trade that a country like India can only dream about. In 1991 Hong Kong had exports of US$ 82 billion and imports of US$ 78 billion. Contrast with India, which in the same year had exports of US$ 19 billion and imports of US$ 28 billion. Even today with the so called great increase in exports, they would probably be less than US$ 21 billion (1993-94) while Hong Kong exports in 1992 almost touched US$ 120 billion.

A further example of rapid economic growth in the absence of controls is West Germany. Although devastated materially and psychologically in the aftermath of World War II, the country rose phoenix-like to achieve a rarely paralleled rate of growth. The West German government refrained from controlling trade or currency. The prediction of the allied occupation forces commanders that, without controls, Germany would soon run out of foreign exchange, never came to pass. Instead, very quickly, buildings were reconstructed and shopping arcades were over-flowing with goods from all over the globe. The world witnessed the beginning of the German 'miracle'.

IMPORT RESTRICTIONS

There will always be traders, merchants, and industrialists clamouring and lobbying the government for controls on imports. Any business able to restrict the import of an item which it produces, would gain enormously.

For example, American car manufacturers in the USA would make billions from a complete ban on the import of foreign cars. Their sales and profits would go up, they would be able to pay higher wages and hire more employees. Unions, therefore, regularly join car manufacturers in lobbying for protection. If the effects were limited to this, the situation would no doubt be beneficial. However, banning import would have far-reaching, vastly detrimental consequences, greatly outweighing any potential benefits.

Eliminating foreign competition would inevitably and immediately result in higher car prices. The financial loss to individual consumers spread throughout the USA would be of less significance than the huge gains realized by the few involved in the automobile industry. Although consumers far outnumber those associated with the manufacture and sale of cars, they would have little or no incentive to change the situation since taken individually their loss would not be enough to justify lobbying the government. On the other hand, General Motors, Ford and Chrysler, the three US car manufacturers and their associates would have all the incentive to lobby the politicians due to the enormous potential gains from stopping imports. The gain would go to the powerful well-connected few. The vast majority of the American public would lose.

Further the Japanese now having less dollars will buy less and invest less in the USA. The workers who would have gained employment due to such investments have no way of even knowing that their loss is a direct consequence of stoppage of Japanese imports. Where is the question, then, of their lobbying the US Congress.

Milton Friedman, in his book *Free to Choose*, points out that with each new trade control the consumer loses; but because his interest is only marginally affected by that one particular control, he is not likely to protest. Rather, it is the special interest group which stands to benefit tremendously, that would be the most vocal in professing its interest are the national interest and therefore its industry ought to be protected.

It is estimated that import quotas on Japanese cars have tied up in excess of US$ 80,000 (Rs. 25 lakhs) of capital per job saved! Eliminating such controls would free that capital to be channeled into more productive ventures employing a far greater work force.

Car companies do have a valid point for demanding protection from Japanese imports: restrictions on steel imports mean that they must pay more than their Japanese counterparts for this basic material. The solution should be to lift the sanctions on steel imports rather than impose so-called ‘voluntary restrictions’ on car imports. Controls can but breed further controls. Restrictions on steel imports can only lead to demands for

similar restrictions by all for whom steel is an integral component be it car, heavy machinery, farm equipment or ship manufacturers.

In today's interdependent world what happens in one sector of the economy has an impact on all other sectors. The Imposition of such restrictions to protect any individual sector eventually results in the entire economy being adversely affected: consumers are charged more, investible resources are fewer, capital becomes scarcer, employment decreases, the standard of living declines, and ultimately the manufacturers for whom the controls were instituted in the first place also suffer.

More and more controls are instituted to mitigate the damage done by the initial restrictions. The total of the negative effects of all controls more than outweighs, even for a particular manufacturer, what he may have gained by obtaining controls to protect his industry. Moreover, the exporting country finding its export earnings decline, curbs its imports. The outcome is a vicious cycle of an augmenting array of controls by all countries, which pay lip-service to free trade but end up even more protectionist.

James Bovard, associate policy analyst, at Cato Institute, and the author of *The Fair Trade Fraud* says:

The rising phobia of imports and trade balances missed the purpose of trade. Trade allows consumers everywhere a chance to benefit from increases in productivity anywhere. At Emerson observed, 'If a talent is anywhere born into the world, the community of nations is enriched.' Trade binds humanity together in labouring for mutual benefits. The expansion of trade between the end of World War II and the 1980s produced the greatest era of prosperity in world history.

The fundamental issue is not whether foreign governments treat American companies fairly but whether American citizens receive fair treatment from their government. Even if trade barriers exist abroad, U.S. politicians should not perpetuate them here. We should cease punishing American consumers for the alleged sins of foreign governments.

Every restriction on imports is an attempt by the U.S. government to compel some Americans to pay higher prices to other Americans than they otherwise would have paid. Consumers do not offer to voluntarily pay higher prices; they pay higher prices only because 17,000 U.S. Customs Service officials leave them no choice.

DUMPING

Dumping is exports at such a low price, that the importing country suspects the goods are being thrown out on their market at below cost. Protectionists argue that the goods have been subsidized to such an extent by the exporting country or company that the home industries cannot survive without government intervention. Here, the proper course for the importing country is to channel its valuable resources, land, capital, etc. freed from having

to manufacture the imported product to other areas. This is precisely what would happen if government ignored pleas for protection. Companies would have no choices but to produce where they have an advantage and would not be able to tie up scarce capital in unproductive, uneconomic activities.

A company, if adequately subsidized, could send cars free to another country. It would be ludicrous to state that the exporting country benefits and the importing country loses. If a person gave you a car at no cost, would you have any doubt about who is the beneficiary?

When it comes to a country in a similar situation, advocates of controls try to confuse the picture. We are told the importing country loses because the domestic industry experiences a decline in output and employment, generates less tax revenues, and so on, while the country dumping the goods benefits by increased employment, greater industrial production, etc. the fallacy is in equating the interests of an industry, or a group of companies with those of the entire nation. An individual business may well lose but that is just another risk of doing business. After all, businessmen do not complain when they get lucky and receive windfall gains. The loss to businessmen is more than made up by the benefits to all the consumers of the subsidized and, therefore, cheaper imported goods.

Suppose that government subsidies were extended to all products and that one country were to give everything free to another. The result: the people of the importing country would be living in paradise; they would not have to produce, they would simply receive everything. The exporting country would be bankrupted. In reality, total subsidization never happens, but where dumping does occur, the recipient should bless the misguided donor not curse him. You and I do normally thank people who bring us gifts.

Governments invariable help particular export industries through subsidies, paid for either by taxing other industries or deficit financing. The burden is borne not by the importing country but by the people of the country subsidizing its exports. Moreover, the size of a government subsidy to one industry would always be less than the costs imposed on the rest of the country to provide such a subsidy. The difference is expended on the government machinery arranging such arbitrary transfers.

Subsidies are aid by the exporting country. When a country subsidizes exports, the people of the importing country gain by obtaining cheaper goods. There is no difference between a gift from an individual and a gift from a country – designating a gift given by a country as dumping does not alter this fact. The effect of both is the same, and it is abundantly clear who really benefits.

There may well be another spin off for a country that is the recipient of “dumped” goods: the stimulation of an increased demand for domestically produced goods. An example of what happened in the USA in 1989 would illustrate –

The International Trade Commission (ITC) investigated the cut-flower industry as US producers believed their market share would fall because of foreign government subsidized exports. The ITC released a 113 page report. The finding? That both domestic production and imports of fresh cut roses have risen in recent years because of the rapid growth in consumer demand. The reason is simple, said the International Herald Tribute, July 7, 1989:

Aggressive sale efforts by rose importers have helped open up new markets for roses that never before existed. Both domestic and foreign producers have benefited from these developments... The lesson of the rose market, where the tide of rising imports has helped buoy US producers, is important to keep in mind.

ONLY FREE TRADE IS FARE TRADE

Adam Smith wrote in *The Wealth of Nations* in 1776:

What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it off them with some part of the produce of our own industry, employed in a way in which we have some advantage... In every country, it always is and must be in the interest of the great body of the people to buy whatever they want of those who sell it the cheapest. The proposition is so very manifest that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people.

Most nations do agree in principle that free trade is the ideal, but talks between them bog down when it comes to deciding who should take the first step and who should make what concession. Governments need to recognize that removing protective tariffs and other trade barriers in no way amounts to a concession. These actions benefit the country removing the restrictions no matter what the rest of the world does.

If this were not the case, then former USSR, China, India and other countries with controlled economies would have progressed much faster than the comparatively restriction-free, capitalist nations of the world. Hong Kong, with its lack of controls and belief in free trade, would have been totally wiped out since practically all the countries with which it trades, operate with a much higher degree of control. Yet it is not Hong Kong which is afraid of imports – in fact, it thrives on them. It is countries like India which are mortally terrified of unimpeded importation.

James Bovard says:

Hong Kong imposes no CVDs (countervailing duties), no dumping duties, and almost no

tariffs. With that 'bare-the-throat' policy, Hong Kong has had the highest economic growth rate in the world since 1960; Hong Kong's per capita income increased from $ 180 in 1948 to over $ 9,000 in 1989. Hong Kong's per capita income now exceeds that of Israel, Ireland, and Saudi Arabia.

These controls run counter to basic human nature. We want to buy what we like, we want to sell what we can. Any laws which go against these desires are bound to corrupt a nation and cannot but the breached. Traders resorting to smuggling are not the culprits. They are only middlemen, earning their cut, by rendering a service to consumers who create the demand for restricted foreign goods.

Governments are not in a position to punish huge number of consumers. In the former USSR which had drastically limited imports, practically the entire communist party membership would have ended up in jail if consumers were prosecuted. In India there would have to be enough jails to imprison a population equal to several large metropolitan cities, if action were taken against everyone purchasing and using smuggled merchandise. It is these unobeyable and unenforceable regulations which turn ordinary citizens into criminals. They are the real cause of corruption and of people losing respect for law.

It is only free trade which is fair. Government intervention is invasion of our liberty and privacy. Trade barriers hike prices and in doing so, bar most of our countrymen from enjoying the products on offer in the world markets. John Stuart Mill noted in *On Liberty*,

Every increase of price is a prohibition to those whose means do not come up to the augmented price."

Government is the reason why people in Italy dress better than we do, Japanese drive better cars than us, the Americans enjoy better health care, while French ladies smell better.

When politicians intervene in the name of fair trade, they favour businessmen against consumers. When trade is restricted to help local industries the effect is as if the industrialist had taken out a gun and extorted the customers to pay him more for his product. Trade barriers, both tariff and non tariff, are based on the supposition that producers have rights, consumers have none. Can you think of anything more unfair than our government helping Tatas, Birlas, Modis and Ambanis against our inherent right to freedom of choice as consumers of computers, cars, airline travel and clothing?

Senator John Taylor of the USA wrote in 1822 "It is the free will which constitutes fair exchanges". Government officials must stop deciding what we should buy and what prices we should pay.

Fairness is voluntary consent and not what a 'babu' sitting in his murky office, far-removed from market place, considers fair.

Complete freedom of trade and commerce will bring us untold of riches even as it did for West Germany, Japan, Hong Kong, Singapore and Dubai. You and I will make fortunes, and in the process, forever wipe out poverty from the face of our nation. If you consider this goal worth fighting for, write to me.

5

THE HANGMAN'S NOOSE:

CONTROLS ON PRICES, CURRENCY AND RENT

Every wanton and causeless restraint of the will of the subject, whether practiced by a monarch, a nobility, or a popular assembly, is a degree of tyranny

– William Blackstone

PRICE CONTROLS

The morality of the capitalist system is that it is based on voluntary cooperation. Such a system rules out any application of force or its threat and requires a willing seller and a willing buyer.

In any voluntary transaction – where no coercion or fraud is involved – it is up to the buyers and sellers to negotiate whatever price they deem fit. No explanations, rationalizations or reasoning is required to justify the price. Voluntary exchange justifies itself – neither the seller nor the buyer has to attempt any apology or defence for the price at which they have mutually agreed to do business.

In the complex market-place of today, hundreds of thousands of interrelated incidents determine the price of a product. Your child, when he first starts to write, creates a demand for additional pencils. This is an insignificant increase. However, if this increase was to be combined with the increased demand of all others who use pencils then the effect may be significant. Stationary retailers will order more and this action will be duplicated in the entire distribution chain until it reaches the manufacturer. At this very time, the customs duty on import of timber required for the pencil may be going up. The result: an upward pressure on the price. At the same time another competitor may have entered the market and may make it impossible for the first manufacturer to increase the price – at least in the short run. This is just a simple illustration, what is happening in the market place is incredibly more complex.

It is only the price mechanism unfettered with government controls that co-ordinates the actions of millions of people spread around the globe. Governments have neither the ability not the inclination to even come close to co-ordinates these actions. Intervention by authority has invariably been an unmitigated disaster. In the former USSR, it was not too uncommon to find an excess of the rarely wanted size twelve shoes and no supplies of size nine in high demand.

Price controls, wherever instituted have created havoc. In the USA, the Carter administration put a ceiling on the price of gasoline. The result was a shortage and a severe dislocation in the economy. Motorists had to queue up and waste valuable time at gas stations across the country. In 1981 Reagan lifted the price control on gasoline. Much to the dismay of his critics the freed market not only immediately put an end to queues and shortages, but also brought about a decline in price. In India and elsewhere price controls have been effected for various items at various times with equally disastrous results.

To an extent the fault for institution of price controls lies with businessmen. They forget that a price set between willing sellers and buyers does not need any explanation. When drug manufacturers try to justify their prices with figures of costs, interest rates, research and development costs, etc., they set a trap for themselves. The government then works out a formula which in its opinion, takes into account these cost structures and slaps on a price control order. Even if the price prescribed is all right for one company at a given moment, it is unlikely to be able to account for all the factors which may be affecting not one but all manufacturers at all times. The world is ever changing. Inflation, interest rates, supply patterns, wages, quality, taxes are all variables and determine prices. When government fixes prices, it sets the stage for serious distortions to start building up.

A manufacturer finding better opportunities or R & D improvements in controlled items. Fresh investment dries up. Shortages build up, increasing further the pressure on prices. Price controlled items find their way into the blackmarket or are smuggled from outside. The rewards go not to the manufacturer but to the black-marketeer or the smuggler.

When smuggling, blackmarketing, tax evasion and currency racketeering, despite being illegal, are so all pervasive, respect for low is completely undermined. It is not a question of what is illegal but what you can get away with. Can anyone in India content that he has never taken part in, abetted or been a silent witness to an illegal transaction – be it bribery, purchase or sale of foreign exchange, dealing in the open market in controlled items, tax scams or the rest of it. If you are conditioned to cheat the government, because you cannot possibly survive otherwise, then you may ultimately become conditioned to cheating your neighbour. After all, both are against the law. The answer does not lie in futile efforts at stricter enforcement, which even if successful would only add to the miseries of life, but in total decontrol over all economic matters.

Tax evaders, blackmarketeers and smugglers, undermine the moral fabric of the nation. One can hardly advocate such activities. Yet the parallel economy renders a valuable service. It satisfies our urgent needs and takes away some of the rigours of a centrally planned socialist economy.

The answer lies in a complete legitimizing of the parallel economy. Tariff and non-tariff barriers have to be torn down so that traders take over from smugglers. All price controls must be done away with to eliminate blackmarketing. Taxes must be abolished to let money

flow into areas where it is most productive, instead of being tied up in gold, property or other assets used for evading taxes.

Capitalism is a uniquely creative and innovative system. Competition builds up in old, tested industries lowering profits or even wiping them out. Companies which take the risk of creating new products, or which develop less costly ways of making existing products, find their bottomline improved. These improvements act as an incentive for others to invest in the field until profits are again driven back to normal.

This remarkably efficient system takes its cue from the price mechanism. Investment moves to areas where capital is most productive. When governments intervene, they distort the mechanism and build inefficiencies. Capital moves to countries which are free from control, not to where it might be most needed and most productive.

CURRENCY CONTROLS

On the way to the airport with a friend who was leaving India, I was astonished to see him stuffing currency into his shows and even his underwear. He was not a smuggler but a respectable citizen who wanted to ensure that he had enough money to support himself while away. The currency laws forced him into committing a felony.

In the UK they have a value added tax (VAT) included in the price of what you buy. A visitor can have this tax refunded, by cheque mailed to his home. Beware of this generosity by the British government; it could land you in trouble. If your VAT refund cheque is intercepted by the Indian postal authorities, you will be prosecuted under FERA. You were not allowed to buy even a shirt at "Marks & Spencer" out of your permitted currency allowance. You would have committed an offence. Holding even a single unaccounted US dollar bill was an offence under FERA.

In controlling foreign exchange governments have embarked upon their biggest follies. In India price controls for many commodities have sporadically existed. In the domain of foreign currencies, however, not only have the prices been set but the authorities have advanced several steps beyond price fixing. The state decides from whom you can buy, to whom you can sell, whether you can hold it and for how long, how much your requirements are and so on.

Transactions in foreign currencies were until recently 100 per cent regulated. As can be expected, this calamitous misadventure of the government kept India an insignificant player on the world's trade and currency markets. The controls designed with the objective of conserving foreign exchange, for growth and for other desirable purposes, had exactly the reverse effect. While during 1950 to 1990 controls were progressively strengthened, India saw its share of world trade dipping from 1.4 per cent to 0.4 per cent.

In the area of currency controls, we have become thoroughly brainwashed and hold a series of myths and misconceptions. Our people have seen a managed currency for as long as they can remember and now any other system doesn't seem feasible. Wouldn't the country run out of foreign exchange? Who is going to pay for important of essentials like oil? The answer: 'Do we run out of potatoes?'

You might be bemused at the analogy – yet let the government manage potatoes right from planting to harvesting to sale and we can guarantee empty shelves. Look at the former USSR. The government managed agricultures, or more appropriately put, managed famines. The stores were empty, the shelves bare, the national pastime was spending hours in queues everyday. The former USSR looks westward for a bailout and a massive emergency food aid to tide it over the coming winter, while having some of the most fertile land and amongst the lowest density of population. Russia, which could be feeding the world, cannot even feed its own citizens. Such is the result of controls.

The present Russian leader, Boris Yeltsin, now in the vanguard of reforms, was quoted by the International Herald Tribune of September 7-8, 1991 as saying about communism:

I think this experiment which was conducted on our soil was a tragedy for our people and it was too bad that it happened on our territory. It would have been better if this experiment had been conducted in some small country, at least, so as to make it clear that it was a utopian idea, although a beautiful one.

Complete lifting of all currency controls would probably be the single most beneficial step the government could take today. If the Indian rupee is fully and freely convertible against all other currencies, the question of running out of foreign currency does not arise. The free markets see to that. The markets constantly adjust the value of the rupee according to its demand and supply at every moment. The rate is fixed in a manner where demand and supply exactly match.

MILTON FRIEDMAN STATES IN *FREE TO CHOOSE*:

If foreign exchange rates are determined in a free marked, they will settle at whatever level will clear the market. In the real world, as well as in that hypothetic world, there can be no balance of payments problem so long as the price of the dollar in terms of yen or the mark or the franc is determined in a free market by voluntary transactions.

It was a mistaken notion that we will run out of foreign exchange. It arose because our government – holding a fixed amount of US dollars – was constantly, until a few years ago, in a state of crisis. An ever present threat of not being able to finance essential imports was the norm.

It is not the government's job to give us foreign exchange any more than it is its job to provide a newspaper for everyone who wants to exercise his right of free speech. Importers

buy foreign exchange in the free markets, exporters sell it. In free markets, there may be many other players, both sellers and buyers. It is the combined action of all of them which sets the price and constantly adjusts; there are no shortages or excesses.

It could happen that when the rupee is suddenly freed from all controls, it depreciates substantially as pent up consumer demand for imports long suppressed is allowed fulfillment. This would be especially so if simultaneously all control of imports are lifted.

There would be immediate bonanza for exports who can now sell the dollars they earn for a higher amount of rupees. You export T-shirts selling them for US$ 1 (Rs. 31) each and making a profit of Rs. 3. The same US$ 1 now becomes worth Rs. 34. Your profits doubles to Rs. 6 though the rupee has depreciated by less than 10%. This leads to immediate shift in focus of businessmen towards export. Given the absence of controls and a free currency, a huge amount of capital from all over the world would flow into India where the expectancy to profit – especially in view of cheap labour – is now extremely high. The consequence is a hugely enhanced business activity, growth and employment opportunities. A genuinely stronger rupee results as exports and foreign investments both take a quantum leap.

You and I and all of us would benefit by immediate dismantling of all currency controls. There is no need to wait even for a single day in taking this measure. Why is our finance minister asking us to wait for three to five years for full convertibility?

West Germany was devastated by World War II. Its Minister of Economics, Ludwig Erhard acting on a Sunday (June 20, 1948) – so that occupation forces could not stop him – lifted all controls on prices and currency. The stores were full within days and the German miracle began.

East Germany became communist, imposed stringent controls on all aspects of economic life. It had to construct the infamous Berlin Wall and shoot its citizens to stop them from escaping. The overflowing stores which West Germany achieved in days, could not be accomplished in the East after over 40 years of central planning and control. East Germany finally collapsed and was obliterated without a war. The free West German Mark remains one of the stronger world currencies, the controlled East German currency is no more.

Unfortunately, when India achieved independence, there was no Ludwig Erhard with us. Had we followed a capitalistic path stead of the socialist model, India today would have been in the forefront of technological and economic development.

Asiaweek of July 6, 1994 comparing post independence India with Japan at end of World War II reported:

In Japan, where even Japanese can't remember who was prime minister when, the miracle that might have been India's took place. The genius of these other men lay not in planning

economies, but in not planning them, in giving businessmen a free hand to compete with one another to create wealth and to seize upon a division of global labor by relentlessly exporting. That national leaders may have been legends in their time or transitory nobodies proved irrelevant in the end.

Had Nehru seen his error, imagine what prosperity might have been India's."

We had the markets, the people and the resources. We were in a much better position that Hong Kong, Japan, Germany. Singapore, Korea or Taiwan. Even now it is not too late to start catching up. Let us make the rupee free. Let us open our economy to foreign investment.

Remember the principle of voluntary exchange. When multinationals come into India they can deal with us only if we want to deal with them. Anybody who deals with the foreign investor be it an employee, shareholder, a customer or a supplier does so because he expects to benefit by dealing.

India even today gets little foreign investment. In 1989 it was a paltry US$ 425 million. Even communist China obtained $ 1,400 million with its far more enlightened policies. September 30, 1993 issue of *India Today* said "In raising funds abroad china has raced ahead". It was able to tap $ 17.12 billion compared to $ 1.24 billion by India. (Another contradiction of a communist country – private foreign investment is welcomed while internationally private individuals were proscribed from accumulating any capital).

Dismantling all economic controls, especially on trade and currency, would open the flood gates to foreign investment. It would come with advanced technologies not seen yet, and which would be very expensive and time consuming to developed. This investment would come not as a result of our begging non resident Indians or multinationals to come and invest but as a result of their expectancy of gain.

Adam Smith first recognised that everyone is better off when people pursue their own selfish interest. He says in *The Wealth of Nations* (1776).

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens.

We have seen ourselves the impact of some relaxation in currency controls. It was not so long ago that we were going from gold sale to gold sale to finance our daily import requirements. In a matter of three years the foreign exchange reserves zoomed from US$ 1 billion to US$ 16.3 billion (*The Times of India*, July 9, 1994). Gold and currency reserves stood at a record $ 20.2 billion by mid-June 1994, double the level a year ago. Imagine the

beneficial effects reverberating through all sectors of the economy if all controls on currency were completely abolished.

RENT OF CONTROLS

There is another price control measure adopted by many governments. It controls the rent of your property. Indian states have some of the most severe and damaging rent control acts in the world. They are not limited to housing but extent to commercial establishments and offices too.

Rent control is no different from any other price control. The outcome is equally dismal. If you go to any city and find rental accommodation almost impossible to obtain as in Bombay, buildings on the verge of disintegrating as in Calcutta and old Delhi, you may rest assured that the city has a formidable rent control in force.

Milton Friedman and George Stigler carried out a study of home rentals in the aftermath of an earthquake in 1906 which destroyed over half of San Francisco's housing. In the absence of rent controls, rentals increased immediately serving two vitally important functions: (1) Housing stock was quickly rationed by price, and allowed people to relocate immediately. The remaining houses on average provided a shelter for an additional 40 per cent. There was no shortage of housing or even a suggestion of it. In any event landlords and tenants were able to arrive at an understanding quickly and nobody remained homeless. (2) Reconstruction work commenced immediately and was carried out in record time.

This is an example of the wonderful invisible hand of Adam Smith at work. The price mechanism works smoothly, efficiently and unobtrusively.

This may well be contrasted to San Francisco in 1946 immediately after the end of World War II. This time the city had to absorb an additional influx of just 10 per cent. The job could not be done and the governor of California called it the 'most critical problem facing California.' The difference this time was that rent controls were in effect. When intervention by government prevents or disrupts the functioning of the price mechanism, the resulting ruination is all too visible.

The objective of rent control is supposedly altruistic – to help the poor in their battle with rent-gouging landlords. However, when the laws are framed, lawmakers do not visualize that the rent controls would end up destroying housing stock and spawning slums. They would create such chronic shortages by choking investments in housing that the poor prospective tenants would consider it easier to win a lottery than obtain rented accommodation.

There are many instances of rich, well-to-do families enjoying rent controlled housing. In 1979 the Mayor of New York, and the President of the New York stock exchange were both staying in rent controlled apartments, paying well below half the market rental value

for their housing. In India, there are numerous cases of poor landlords being totally victimized by relatively well-of-tenants who take full advantage of rent and eviction control enactments.

The attempt by authority then is at best an endeavour to provide haphazard linkage to the wants, wealth and income of individuals. The legal system works, invariably, for the tenant occupier. Even when a landlord is able to win the case for eviction or recovery of rental arrears, it would usually be his children reaping the rewards, considering the number of years it takes for cases to be settled in our courts.

I was living in an antiquated apartment block in old Delhi while I was in nursery school. There were five other families including the family of the landlord. One of the tenant families was related to us. I still remember the laughter and the gaiety between us all. We used to exchange gifts with the landlord who considered everyone as part of his big happy family. The landlord even gave me a toy train when I was sick.

I went back to that apartment block some years ago. My uncle and aunt were still staying there but the goodwill had evaporated. The average rental for each apartment was Rs. 150/0 per month. The landlord had wanted his premises vacated. None of the tenants obliged as the rental value had increased with inflation and was about Rs. 1,999/- per month for each apartment. Fortunately, although the laughter had disappeared the tenants and the landlord were still on talking terms.

In the subsequent years I saw a complete breakdown in the relationship. Initially, when the premises were let out, the landlord was a wealthy person while the tenants were just starting out. With the passage of time, the landlord's family became gradually impoverished, while the tenants started doing well. At the end, all the tenants were in a much superior position and in one case, that of my own relatives, earning probably as much as ten times in business as the landlord's family. The landlord tried all means – cutting electricity, hiring thugs – to get the premises vacated. All to no avail. The tenants and landlord became sworn enemies.

The landlord sold away half his share in the apartment block to a building contractor. He then provided money to each tenant to have the premises vacated even though in the preceding three years, the landlord had not received any rent. My own relatives received Rs. 250,000/- on moving out. In 12 years they had paid rent of Rs. 21,600/- to the landlord. As can be seen, the landlord actually ended up paying the tenants for the privilege of living in his residential apartments! This then is the perverse effect of rent control legislation.

During this entire period the landlord had neither any resources nor any inclination to keep the building in good repair. The building was crumbling and would probably have been declared unfit for human habitation in another three or four years.

While it is obvious that rent control is totally discriminative against all landlords, rich or poor, it is certainly not being suggested that tenants are generally richer than the landlords. In the absence of any details or statistics, no conclusion can be arrived at. However, there is enough evidence to suggest that poor landlords are as easily victimized as rich ones.

Rich landlords can afford vacancies. Rent control, and the near impossibility of getting premises vacated, ensures that landlords do not let out their premises unless circumstances, such as a heavy load repayment liability, absolutely compel them to do so.

In Bombay, over an estimated 30,000 apartments are being kept vacant by absentee landlords not wishing to lose possession. Well-to-do people in India are generally businessmen who are in a position to evade taxes. If they do build a house, it is highly unlikely that they would give it on rent. It is every person's dream to own a house. Salaried employees take loans to realize their dream. Entitlement to service accommodation, transferable jobs and loans put them under great pressure to let out their house. It is to these people that rent control does its greatest disservice.

Rent control on commercial properties and office premises is particularly unjust. Even big companies do not vacate the premises on expiry of their agreements, as they would then have to pay higher rentals.

More often than not, we have the spectacle of government siding with the rich and against the poor. The landlord, unable to have a legally enforceable agreement with a high rental, likes to be protected by a huge upfront deposit. Entrepreneurs, who want to initiate a project, find it impossible to get any premises without a high key deposit. Who would find it easier to come up with this money – an established businessman or a new entrepreneur?

When I, my wife and son moved to Fresno, in California, USA, it took us a couple of days to move into an apartment. Taking an office was another simple two day affair. One month's rent as security deposit was all that was required. Landlords pursued us with unbelievable deals like waiver of the first month's rent for a one year contract. Fresno does not have a rent control law. In New York which does have rent control, it is impossible to find any decent accommodation except at unconscionably high rents. USA gets no automatic protection, rent control is as much a scourge there as it is in India.

During the time I worked with the Oberoi Hotels in Delhi, I came across a few associated, starting their careers. Unless they were lucky enough to have parents to stay with, they had great difficulty in finding any accommodation. I remember one executive who finally found a "Barsati" (a single room studio at the roof-top of an apartment) in South Delhi and spent two-thirds of his monthly remuneration on rent. He considered himself lucky. Those who could not were sharing rooms or staying as paying guests. It seemed to them that nobody in Delhi wanted to rent out rooms. Foreigners especially embassies were universally preferred as landlords could be assured of vacancy at the end of the agreed

tenure.

Rental simply is not considered attractive as the law makes it impossible to repossess premises and does not even allow rent increases to compensate for inflation. Bombay has one of the most devastating rent control enactments in force in the world. My wife's uncle had a flat which they would just not let out even to close relatives. Is it any wonder then that absentee landlords refuse to let out apartments even as an ever multiplying number of prospective tenants become increasingly desperate.

Such is the plight of prospective tenants who, in a free market, would easily have located some accommodation. They are forced to live in far outlying areas from where they have to commute three or four hours a day just to get to work. Still others have no option but to stay in polluted, garbage filled, thug infested slums of Bombay.

The fair price or the just rental is that which is agreed upon between the tenant and the landlord. This agreed rental, undistorted by rent control, serves important functions. It enables people to know the return on housing investment. If this be better than average, it inevitably leads to a rush of investors trying to benefit from this surplus. This would again tend to bring rentals to a normal level. If rentals were to fall, it would choke-off further investments until an uptrend again warranted investments. People would know their true cost of housing and be guided as to when to take on extra space, when to double up, or when to cut back.

When the government legislates rent control, it is messing with this entire information system. People tend to move away from investing in premises which may at some time attract rent controls. Houses are not built except to satisfy one's own needs.

A tenant if vacating premises generally faces a huge loss, as he would have to pay an increased rent elsewhere. Thus, he tends to stay where he has always been staying. Unless his job change more than compensates the rental loss, he will not move even though he may have to commute a long distance or stick to an otherwise unattractive job. These are greatly undesirable side effects of rent control. The only tenants rent control does help are those who end up staying in one house for lengthy periods of time, thus directly encouraging immobility.

In most other countries some relief is provided from rigours of frozen rentals by allowing landlords increases to compensate for inflation. However, in India, even this is not permissible for many dwellings, particularly older units. Instances where landlords are collecting Rs. 200 as rent for a four bedroom house in old Delhi or certain parts of Calcutta are well known. If the landlord was to pay some taxes and provide even a modicum of repair and maintenance, his expenses would far outstrip his income. He would then be paying his tenant for the privilege of living in his house.

Landlords, being selfish like you and I, are generally not of this charitable nature and would rather let the house disintegrate – the paint fade, and the roof fall, preferably on the tenant's head. A visit to the residential and commercial areas of old Delhi would very soon convince any skeptics about this deterioration.

State governments in India have now begun to provide some relief from applicability of rent control to houses over a certain rental value. Currently in Delhi, it is at Rs. 3,500 per month. Could you think of anything more absurd? Government is discouraging investment in low income housing and favouring landlords who build for the rich!

Prospective tenants are most harmed by rent control. They have no lobby. Politicians are not going to look into the interest of tenants who might have moved to their constituencies, were it not for the deadening effect of rent control on new housing developments.

Today, young men have to suffer the indignity of staying on with their parents after they are married and have found a job. Separate rented housing – let alone one's own house – remains a mirage.

The housing insufficiency has been aggravated many times over by –

(i) GOVERNMENT CONTROL, REGULATION AND OWNERSHIP OF LAND: Delhi Development authority (DDA) operates as the sole developer of land in the capital. Land is parceled out extremely slowly and DDA's monopoly position enabled it to charge monopoly prices. The organization itself is a hot-bed of politics and corruption. Scandals and scams go hand in hand with its operation and are all too well known. Every state has its own development authority and it is the same story everywhere across India.

(ii) LEASE SALES: the land sold by DDA is on a 99 year lease. No land is sold outright, with a clear title on a freehold basis. This enables DDA to take a hefty share – currently one third of the sale proceeds on every property transfer. This again encourages immobility. Property owners faced as they are with heavy payment to DDA are locked onto the property. They will rarely sell, even if they do not need it, as they know that buying again would be almost impossible requiring a huge additional investment. The effect of this lock in is inevitably to put an upward pressure on land prices.

(iii) INFLATION: Prices go in the same direction as the ballooning deficit of the government: ever upwards. Property has proved to be one of the best hedges against inflation.

(iv) BLACK MONEY: Taxes are high on paper but routinely evaded. This money usually ends up bidding property prices still higher. Funds which could be used for business expansion cannot be reinvested as that would entail severe tax penalties. The money ends up in unproductive non-performing assets if it is not transferred abroad.

(v) PROPERTY TAX, CAPITAL GAINS AND WEALTH TAXES: These increase rents by increasing the cost buying and maintaining property. Gains on sale of property are illusory. You bought a house for two lakhs and sell it for five lakhs. You will have to pay tax on the

(vi) difference of three lakhs. When you go to buy a similar house again you find that what remains with you after taxes is just not enough. Your capacity to buy has been reduced. Sale of one house does not get you another of the same standard. It is for this reason that capital gains tax is called one of the biggest frauds against all of us.

(vii) HIGH CONSTRUCTION COSTS: Iron, steel, cement have all been regulated at various times. Price controls during the seventies and eighties created havoc. Construction materials were in extremely short supply or had simply disappeared. For a house for a middle class person this usually meant wasting time outside offices of corrupt bureaucrats for supply permits.

All these causes took property prices to levels higher than even the USA or UK where the government does not play such a dominant role. If we compare property value with per capital income the difference becomes even more start. In the USA with a per capita income of US$ 23,000, five years earnings would be enough to buy either a house in a town, or a small apartment in a big city. With India's per capital income of Rs. 9,300 (US$ 300) in fie years a person would not even be able to afford a home in the slums of Delhi or Bombay. Consider again that long term (30 years) mortgages are advertised by banks to finance home purchases in the USA. In India loans, if available, are generally not enough to cover even half the purchase price.

The government instead of realizing that it, and it alone, is causing the problem, compounds it further by rent control ordinances. This is a classic example of controls breeding further controls and worsening the problem to its present horrendous and monstrous level.

Landlords down the ages have been blamed for taking unfair advantage of poor tenants. Shortage of housing is blamed on a wide variety of causes – shortage of land, population explosion, migration into cities, rapacious landlords, governmental indifference, lack of control, lax enforcement of existing laws, black money and so on. Landlords are in no position to cause shortages. They may prefer a new tenant to an older one paying a low rent, but that does not affect the overall supply of housing. Shortages are solely the result of government intervention. The severity will be in direct proportion to the harshness of controls and their enforcement.

HENRY HAZLITT SAYS IN *ECONOMICS IN ONE LESSON*:

The injustice imposed on landlords is flagrant. They are, to repeat, forced to subsidize the rents paid by their tenants, often at the cost of great net losses to themselves... Men in other businesses, who support the imposition or retention of rent control because their hearts bleed for the tenants, do not go so far as to suggest that they themselves be asked to assume part of the tenant subsidy through taxation. The whole burden falls on the single small class of people wicked enough to have built or to own rental housing.

He continues,

When unreasonable price controls are placed on articles of immediate consumption, like bread, for example, the bakers can simply refuse to continue to bake and sell it. A shortage becomes immediately obvious, and the politicians are compelled to raise the ceilings or repeal them. But housing is very durable. It may take several years before tenants begin to feel the results of the discouragement to new building, and to ordinary maintenance and repair. It may take even longer before they realize that the scarcity and deterioration of housing is directly traceable to rent control.

But when we consider its long-run effects on everybody, including the tenants themselves, we recognize that rent control is not only increasingly futile, but increasingly destructive the more severe it is, and the longer it remains in effect."

> The only way to half the destruction of our housing stock, for houses and buildings to regain their shine, and for our people to be able to afford housing, is by total decontrol. Government must sit aside – there is no other way. Increased government intervention will inevitably provide a starry cover rather than a roof for our people. Surely it is not the aim of the government to enable a majority of our population to enjoy fresh air while sleeping in the open.

6
CONTROLS VERSUS FREEDOM
HOW HONG KONG MADE IT BIG

Government is not reason; it's not eloquence; it is force. Like fire, it's a dangerous servant and a fearful master. – George Washington

All governments are, of course, against liberty. – H.L. Mencken

THE EXAMPLE OF HONG KONG

Today there is no nation on earth which practices true *laissez-faire* capitalism. Big and strong governments are the order of the day, varying only as regards the quantum of their intervention.

Against such a backdrop, Hong Kong currently seems least distant to offering absolute economic freedom. The government exercises relatively little control over the inter-play of market forces. The result of such freedom has been spectacular. What could have been achieved without the scepter of its sovereignty passing to China in 1997 can only be imagined.

Hong Kong is tiny. Its land area of 1,045 sq.kms. in 1991 supported a population of 5.7 million, or an incredible 5,400 persons per sq.km. It showed an astounding growth rate of 7.2 per cent per annum – at this rate compounded annually, a country more than doubles itself in just eight years.

Meanwhile, countries like India and China, with populations of 300 and 100 persons per sq.km. respectively, stagnate and talk about the menace of population explosion. Not only does Hong Kong have one of the highest densities of population in the world, it has also consistently shown incredibly high rates of population growth. This is largely because of the continuing influx of refugees escaping from China. In the five years preceding 1983, Hong Kong's population grew by 14.4 per cent compared to a 10.4 per cent growth rate in India and 7 per cent in China. Thus, Hong Kong in no uncertain terms demolished the myth that the population explosion has led to stagnating economies in many Asian countries.

It is ironic that Britain, of which Hong Kong is still a crown colony, follows policies radically at odds with what it does in Hong Kong. While UK is crushed under the weight of its welfare-statist socialist structure, Hong Kong has been left relatively unscathed. Hong

Kong, far removed from the mother country, was considered of much less importance and, as a result, intervention was kept to a minimum. The British government left Hong Kong alone. It concentrated instead on improving the economy and raising the standard of living in the mother country.

The results as usual are the opposite of what the government had planned: Britain stagnated, Hong Kong flourished. Unemployment and low growth rates plague UK and the rest of Western Europe. Hong Kong showed an unlimited capacity to absorb not only its normal population growth but also a steady influx of immigrants – and yet prosper.

I have heard it said that countries like Hong Kong and Singapore are small in size and easily governable to prosperity. It small is prosperous, then why didn't former East Germany – a fourth the size of West Germany – prosper? North Korea is half the size of South Korea – which country is more prosperous? If you accept the argument that small countries progress and bigger ones do not, then let that be a rationale for splitting India into 30 different states. Why do we have to bother about Punjab and Kashmir going their own way? It is not a country's size but its government – or rather, lack of government interference – that makes a country prosper.

Mark Tier, editor of *World Money Analyst*, while analyzing the reasons for the 1984 surge in Hong Kong's exports by 44 per cent over the previous year, observed:

Hong Kong is to the USA as the USA is to Europe. As economic change that takes the USA a year to adjust to would need only one to two months in Hong Kong. In Hong Kong, unions are powerless (except in the government). They have no-special, legalized privileges such as which allow US and European unions to withdraw their labour without breach of contract. There are no minimum wage laws to price people out of the market, and while there are some welfare benefits, no one is paid to stay at home.

Since Hong Kong businessmen can fire workers at will, they'll hire as soon as they need extra hands – even if that hiring might be only for a few days or weeks. Further, since there are no minimum wage laws, wages in Hong Kong can fall as well as rise. Thus, Hong Kong business can immediately adjust their costs of production to changes (e.g. a rising currently) which would simply price business elsewhere out of the market.

Finally, Hong Kong is an even more entrepreneurial economy than the US (which is, of course, more entrepreneurial than Europe). A Hong Kong factory could be producing toys one week, and – literally – calculators, radios, watches or something else the following week (This is not true of all Hong Kong factories, but it is true of many.)

Thus, it doesn't matter what the change is – whether the dollar is rising (or falling), whether the bottom has dropped out of the watch market – or Cabbage Patch dolls are the latest US craze and production has to be quadrupled by next month – Hong Kong's entrepreneurs will have adjusted before most people in the rest of the world realize there is a problem.

The conventional economic wisdom is that a falling currency will produce a boom in that country's export – and thus its economy. This is not true.

The correct relationship is that a falling currency offers an opportunity to expand export sales by taking advantage of the apparent reduction of production costs (in foreign currency terms) that the falling currency causes. As I trust I've shown, whether a country (or a firm) takes advantage of that opportunity is a completely different question.

The more entrepreneurial the economy, the greater and more widespread will be the benefits of a falling currency.

An adjustment process that might take a year in the US would take five to ten years in Europe.

American business, large and small, can cut manning levels (and salaries), and introduce new, more efficient methods of production with relatively little union or government opposition.

In Europe, by comparison, a business must pay substantial wages to attract people off welfare, and once hired, it's difficult or expensive to fire. So a European business must be confident that when they hire someone they're still going to want to employ that person in five years time. Even of they've got idle production capacity, they can't just add a few hundred people to profit from the opportunity offered by the high US dollar – when those profits might evaporate in one or two years.

Since European business cannot easily cut production, they're reluctant to expand it – especially for short-term opportunities. (One example of this, despite the growth in European exports – manufactured goods – the OECD reports that nearly all those new jobs that have been created in Europe are in the service sector, not manufacturing.)

However, this is only part of the effect of Europe's welfare states on business activity. Such government-imposed costs of doing business fall most heavily on small businesses; large businesses can afford a battery of lawyers and other functionaries to specialize in dealing with government but small businesses, where one new employee might be 10 per cent or 50 per cent of the current payroll, resist adding labour until there's no way they can avoid it. And there must be thousands of small businesses which have never started because of those extra risks.

The main creator of new jobs is small business. In the US, for example, the total number of people employed by Fortune 500 companies has been static over the past two decades. The overwhelming majority of the 7,000,000 new jobs created in the US have been created by small companies. So the reason unemployment in Europe has not fallen as a result of the strong dollar is not because Europe hasn't benefited, it's because those benefits cannot be passed on due to government interventions ('rigidities').

What Mark Tier wrote in 1984 is identical to what can be said now, after 10 years, in 1994. Europe stagnates with unemployment in double digits. In the USA unemployment has fallen below 7%. Hong Kong remains unstoppable with hardly any unemployment, growth rates outstripping both Europe and the USA and exports booming as never before.

If it takes about five years for Western Europe to adjust to a change, then most other countries of the world in Asia, Africa, Eastern Europe, and Latin America would perhaps take a decade or longer. Why? Because, their economies are sheltered, protected, and strangulated with myriad restrictions.

The statist-interventionists bear full responsibility for their stagnating economies and then use stagnation as an excuse for even greater intervention. But it is their own bankrupt, and often contradictory, policies which alone are responsible for what is happening in their countries.

In both eastern and western Europe, governments offer incentives for larger families, as they face zero or minus population growth rates. Population growth is causing all the problems, scream the politicians of Asia; zero or negative population growth is leading us to a critical situation, roar the leaders of Germany. Politicians always rationalize increased intervention. They would love to control your family size. In China, they already do. You face severe penalties if you break the one child per family rule.

Hong Kong has proved beyond doubt that allocation of resources is most efficient if left to market forces. There is no limit to economic growth, negligible or even zero raw material resources, extremely limited land area – all these cease to be constraining factors. Human ingenuity shows a tremendous capacity to overcome them all.

The only moral and logical socio-economic-political system which has stood the test of time is laissez-faire capitalism. This is the system which has a healthy respect for the individual and grants people the freedom to pursue any economic activity they like, limited only by their capacity. The system does not rely on force; it relies instead on voluntary co-operation. Every man is free to sell his products or services at whatever price the market will bear. Every man is free to buy what he wants it he can find a seller who will agree to the price he offers.

INDIA COMPARED

All government intervention means an application of force. Take for example pricing policies which are at variance with what the market could bear. If you make drugs in India, you may be forced to sell at rates less than those which a free market would allow. If you are a consumer of butter in Europe, you are being made to pay prices higher than you would pay in a free market.

The results of the first intervention are shortages, shifting of resources to where there

are no controls, and ultimately greatly higher prices. The increase in prices may be open or disguised by government subsidies raised by taxes on other items. The effect of the second intervention is production far in excess of what the country can absorb. One has only to look at the huge surpluses of agricultural and dairy produce held by American and Western European governments to realize this.

In India, government policies as they meander between total control to relative freedom and vice versa cause havoc. When prices of drugs are controlled, scarcities abound and essential medicines quickly disappear into the black market. Controls on cement almost destroyed the cement industry, nearly bankrupted the small house-builder, gave the maximum benefits to black marketers and corrupt politicians, and contributed to the general moral decay of the country, according to the eminent jurist Nani Palkhivala on December 17, 1981. He added:

The advantages of decontrol would be certain and enormous. The consumer would get cement at a price far below the prevailing black-market price, and be would get it without having to corrupt any minister, mandarin or member of legislature; while competition in a free market would assure him of a better quality product.

What applies to cement would equally apply to other products. Controls on cement were substantially lifted in the late eighties. It was probably one of the biggest success stories of decontrol. Production jumped as fresh investment gushed in and today we talk of the unthinkable – exporting cement.

In India, new rules and regulations flow in a constant stream from the desks of legislators and bureaucrats; hardly a day passed without a change, modification, or amendment occurring in some rule or procedure. Industry and business in India were all but regulated out of existence during the Nehru-Gandhi era. An author of a book on company law wrote in the preface: "Company law in India has become so complicated that company officers in India wake up each day as potential criminals."

To detail all the restrictions, rules, policies, procedures, and laws which today throttle the Indian economy would be impractical – it would take more space than the *Encyclopedia Britannica.* However, to list just a few:-

(i)A Company cannot, without following elaborate procedures, change or extend the scope of its activities (company law and industrial policy).

(ii)Expansion of capacity is strictly controlled and heavy penalties are levied in case of infringement (industrial licensing policy). Even now, the licensing provisions remain in effect for 18 industries.

(iii)A company cannot change its place of doing business without government consent; to change from one state to another within the country is almost impossible (company law

as regards change of registered office).

(iv)Closure of a unit is possible only with government consent (various labour laws). Enormous amounts of capital remain tied up in uneconomic business undertakings. Foreign investors are especially wary of this lack of 'exist policy'.

(v) Staff once hired cannot be fired except by following a procedure which is extremely costly, cumbersome, and favours unions; to sack anyone for inefficiency is impossible (labour legislation),

(vi) Price of many items are fixed by government (Essential Commodities Act).

(vii) Foreign currency market is managed by the government, rates are fixed arbitrarily and not left to objectivity of market forces (Foreign Exchange Regulation Act).

(viii) Travelling and entertainment expenditure on trips abroad is decided by the government (Reserve Bank's directives and exchange control laws).

(ix) Minimum wages are fixed (Minimum Wages At).

(x) Bonus is to be paid by law – is not to be linked to productivity (Payment of Bonus Act).

(xi) Rents cannot increase with inflation – they are fixed by the state (various state rent control acts).

The restrictions are endless and to list the effect of each is to repeat what we already know. The cost of all these controls has been appalling. For capita income stagnated at US$ 300 per annum. More than 50 per cent of the population lives below the subsistence level.

Nani Palkhiwala said on 8th January 1981, in his G.D. Samani Memorial Lecture:

Controls most claim the primary responsibility for the chronic scarcity of essential goods and for the ever-expanding black market. But our unhealthy addiction to controls is assured of continuance because they satisfy four basic hungers: the hunger of professional politicians for the substandard class of socialism, political parties' hunger for an unending supply of funds, the bureaucrats' hunger for greater and greater powers, and the unprincipled businessmen's hunger for untaxed income.

Countless regulations and restrictions of arbitrary origin and pernicious effect continue to ensure unemployment and grinding poverty. Controls whose mind has decayed completely have teeth and claws sharper and stronger than ever before. Controls came to India as a national blessing in the early stage of our republic but have grown to become a national curse. We are the only country in the world where it manufacturer is prohibited by law from increasing his production beyond the permitted capacity, even though he may seek to

achieve the growth merely by improved techniques or more efficient management and without employing additional capital or installing new plant and machinery.

OTHERS COMPARED

Now let us look at countries which have practiced complete and absolute government control. Africa provides a glaring example. Communist Ethiopia and Sudan are facing catastrophe – millions die in these lands, ravaged by famine. They have no option but to turn to the decadent, imperialist, capitalist west for their very survival! The former Soviet Union, Eastern Europe, and China have long since realized that to be completely socialist means complete disaster and have allowed a modicum of liberalization. While paying lip service to communism and socialism China appears to have veered towards capitalism to an extent unimaginable during chairman Mao's time. Some excerpts from *International Herald Tribune* of December 18, 1991 –

…many Chinese believe that they owe their fatter wallets not to communism but to capitalism. And many economists say they are right.

After a dozen years of economic restructuring. China sometimes seems more capitalist than communist, and that is one reason why the country is doing so well. Most of the growth now is coming from private and collective enterprises, not from the state-owned behemoths.

The goods and services purchased by the government total only 6 per cent of GNP, just half the level in India.

…'Our policy is to talk all the time about socialism, while moving more and more towards the private sector,' equipped a Chinese official who returned recently from a visit to the Soviet Union. The Soviets are just the opposite. They are talking all the time about reform, but they still haven't changed anything. There, the state still owns everything.

In many respects, however, China still has a long way to go. Its bloated bureaucracy and its growing budget deficit threaten to abort growth. It, moreover has done nothing about its debt-ridden, unprofitable state companies that continue to depend on handouts.

FREE THE PEOPLE; CONTROL THE GOVERNMENT

The greater the controls, the greater the regulations, the greater the restrictions, the greater the obstacles for business and for the economy; the greater the poverty, the greater the corruption, the greater the hardship, the shorter the life expectancy, and much worse is the quality of life.

Life after all is about freedom. Everytime government legislated, everytime it taxes us, everytime it grants monopoly privileges to its corporations or to individuals, it takes away our freedom. When it takes your money, the government takes your freedom. You and I

require money to buy houses, acquire cars, fly, go abroad, buy medicines, have "an operation, go on a honeymoon, raise and educate our children, marry, date…" though probably not in this order.

When the government taxes us or prints notes to fund its deficits thereby devaluing the rupees we hold, it limits our ability to pursue our own individual desires. It, thus, reduces our liberties as surely as when it restricts our physical movement by border, passport and visa regulations or when it prevents us or our traders from importing gold, silver, TVs, VCRs or cars.

Any country which regards its citizens as human beings, which respects its people, can follow only one system: Iaissez-faire capitalism – the only system which does not depend upon application of force. All other systems are those of tyranny, varying only as regards the amount of force.

AYN RAND IN CAPITALISM THE UNKNOWN IDEAL WROTE:

Society that robs an individual of the product of his effort, or enslaves him, or attempts, to limit the freedom of his mind, or compels him to act against his own rational judgement – a society that sets up a conflict between its edicts and the requirements of man's nature – is not, strictly speaking, a society, but a mob held together by institutionalized gang-rule. Such a society destroys all the values of human co-existence, has no possible justification and represents, not a source of benefits, but the deadliest threat to man's survival. Life on a deserted island is safer than and incomparably preferable to existence in Soviet Russia or Nazi Germany.

In any free society, government has to be strictly controlled and it may not take any action except what is allowed. Its citizens have to be free to do whatever they wish other than what is specifically prohibited to ensure that rights of other individuals are not infringed. This is the only means of subordinating government to the will of the people, of clearly establishing that government exists as the servant of people. Its role is limited to the enforcement of individual rights, maintenance of law and order, and protecting the country's boundaries. It has no other part to play.

7
GOVERNMENT HAS NO BUSINESS IN BUSINESS

The government has no business to run industry, hotels, cement plants, restraurants or architecture consultancies. It makes no sense. – Mian Mohammad Nazaz Sharif, Ex-Prime Minister of Pakistan

Get government agents out of the post offices; privatize them for communication freedom – Harry Schultz

There is today a worldwide flight from statism – communist, and socialist regimes are being removed from power or are effecting a radical change in their policies. The former USSR, China, and Eastern Europe have all given up communism and are trying a more flexible approach with greater freedoms. Socialists have been voted out in Sweden where the essence of care by the state from cradle to grave was once held sacred. In France the socialist government of President Mitterand gave up attempting to micromanage currencies, nationalizing banks and industry, raising taxes and expenditures, and raising minimum wages when these measures immediately sent the economy in a tailspin while inflation and unemployment soared. The socialists paid the penalty losing power to the more centre-right Edouard Balladur who is now Prime Minister.

Nationalizations and government forays into business are now a days universally unacceptable. Governments around the world – Latin America, Western Europe, Eastern Europe, Asia – are putting their commercial and industrial white elephants on the block. One politician who declared himself against government in business is Mian Nawaz sharif, Ex-Prime Minister of Pakistan. In an interview with the Island newspaper of Sri Lanka (May 27, 1991) he said:

You see there is a lot of corruption if the government gets involved in running business ... No one has a stake in what is going on.

Workers spent all their times in the streets. Either they are not paid properly or they are paid out of the state's resources ... I am not going to subsidize inefficiency or underwrite corruption in any way.

He added:

Industrial growth depends on two things, One, the availability of finances. Two, a good environment. This means that people should not have to go through regulatory mechanisms. We have done that. There is no license. No investment limit. You don't have to come to the government.

When asked what his government would do with public sector units, Mian Nawaz Sharif said: "Sell them. Right now, 40 such units are on sale. I believe this is the largest such sale in history." Contrast this with India's reluctance to sell more than a 20 per cent share in some state enterprises. This sale of a 20 per cent stake is no privatization and is only a means of pre-empting still more funds for the government.

Pakistan decided to sell over 100 state-run units including nationalized banks and financial institutions. A decree was issued stating that "any banking, commercial, manufacturing or other company, or enterprise transferred by the government to any person under any law, shall not again be compulsorily acquired or taken over for any reason whatsoever."

Pakistan has taken the lead over India. Only time will tell whether these changes are going to be permanent. After all, what government can grant by decree, it can take away by decree – given the usual behaviour of governments. However, Benazir Bhutto does not seem to be in any mood to reverse these policies which made such sound economic sense and again bring calamity upon herself.

Throughout the world, governments that are interfering less in business, are seeing their country's economy improve. According to Robert Day, an investment executive in Los Angeles, quoted in *Newsweek*, May 27, 1991, Mexico under its president, Carlos Salinas de Gortari, "has turned itself around more than any Latin developing country" by privatizing business it owned. It raised billions divesting itself of 749 of 1,155 state companies and planned to sell more. The newly privatized airlines, Mexicana and Acromexico, were soon winning praise from business travelers for their better service."

In Sri Lanka in July 1988 an astonishing advertising campaign began to appear in local newspapers. "The World Is going Private" was the headline of one which quoted Britain's Chancellor of the Exchequer, Nigel Lawson, saying "The business of government is not the government of business."

It went on to add: "In Sri Lanka we are on the threshold of privatization of selected State Corporations. Now for the first time, you the members of the public as direct shareholders will own and earn profits from well managed Privatised Corporations."

Another telling headline stated "In just three years, state corporations gobbled up Rs. 19,000 million that could have been used for greater development and improved welfare services." Quoting the then president Junius R. Jayewardene, the advertisement said: "Looking into not adding to the unemployment problem, not seeking to deprive the worker

of his dues, instead of being a burden on the state, we thought of making them private companies. That is the way I look upon privatization."

The advertisement next quoted the then Indian PM, Rajiv Gandhi, to support its case for privatization. "Can we afford a socialism where the public sector, instead of generating wealth, is robbing and sucking up the wealth of the poor."

Ironically, it was the follies of his mother and grandfather that Rajiv Gandhi was talking about. *Asiaweek* of July 6, 1994 says "He (Nehru) thought it acceptable, morally correct even, to nationalize private property – and that owners whose lands or businesses were confiscated ought to be grateful they were paid any compensation at all. Railroads, shipping lines, steel mills, coal mines and heavy-industry works were swept up and managed by the state for the 'good' of all. They were run as bureaucracies – and as inefficiently. Like civil servants, state-enterprise workers were virtually impossible to dismiss".

The government has invested our funds into a vastly inefficient, wasteful, unproductive bureaucratic empire. The Rs. 100,000 crores (US$ 32 billion) investment produces an unadjusted return of 3 per cent. Even this laughable return in these days of double-digit inflation is grossly overstated. Some adjustments to consider in evaluating the government's forays into business are:

a. Interest on capital is not considered as the government gets its funds free – courtesy the people of India. The cost to private business of this capital at current rates would be Rs. 20,000 crore.

b. B. The market value of the prime real estate which our public sector sits on is ignored. The State Trading corporation (STC) headquarters building would fetch over Rs. 60 crore in the market but is valued at only Rs. 19 crore in its books. Thus, valuable assets are pre-empted and not put to their most productive use. Government offices occupy huge tracts of land and building in city centres. Their work is to actively hinder private enterprise and keep the standard of living of a majority of us no better than what pets enjoy in the USA.

c. C. All the so called profitable units are so because competition is eliminated by decree. Losing units also sheltered from competition, continue to lose money anyway despite protection. Government can ill afford even more subsidies and therefore hides its losses by series of legislative measures banning competition.

The inefficiencies are borne by us though we may not come to know about the amounts involved. It is as surely money out of our pocket as if it were the handiwork of a pickpocket.

Let us look at the activities of some of these units:

–Indian tourism Development corporation (ITDC) loses money on its hotels despite holding choice hotel properties. It covers it up by profits on government granted exclusive duty free shops at international airports.

–Bharat Gold Mines Ltd (BGML) perhaps holds the dubious honour of being the most unefficient gold mine in the world. *The market value of the gold it mines is half the cost of producing it.*

-Indian Oil Corporation (IOC), Oil and Natural Gas Commission (ONGC), Steel Authority of India Ltd (SAIL), Hindustan Petroleum (HP) and National Thermal Power corporation (NTPC) are the five companies which contribute to over 90 per cent of the profits of the public sector. You can guess how that happens – IOC, OGGC, HP enjoy *an absolute monopoly*. The other two companies SAIL and NTPC operate in near monopoly conditions.

-Indian Airlines until a few years ago operated under a monopoly and has, along with China airlines, the dubious distinction of being the most unsafe airline in the world. Service and efficiency are nonexistent and the deteriorating interiors of its Boeings makes one wonder whether the condition of the engines is any better.

A few years ago, it invested Rs. 2000 crore (US$ 650 million) in new planes and then in the aftermath of a crash, where it lost one of these new airbuses, kept them grounded for two years. Little does your chauffeur who has never been inside an aeroplane realize that the high price he pays for salt, tea and his clothes, is due to government charging a higher tax or printing more notes to fund Indian Airlines. He may blame his ill fortune, the greed of the trader, or his past 'Karma' but there is hardly any chance of his stumbling on the diabolical outrage that he is subsidizing your use of Indian Airlines.

I quote from my diary of December 21, 1991. "My wife has been suddenly stranded in New Delhi. I have just received a frantic call from her that Indian Airlines pilots are on strike. I heave a sigh as I know what we are in for. She will now miss her onward connection from Bombay to Colombo where I am waiting for her. Indian Airlines enjoys a monopoly and there is no other airline to transport her from Delhi to Bombay. She had kept just enough time to finish her work here and then we were to go on to the USA. That trip will also have to be put off. I shudder at the thought of telephone calls. I will have to make to reschedule appointments, and to inform my brother in the USA to change his programme and receive us on another day. I just sigh once more, pick up my phone and get on with my calls, dwelling upon the futility of making plans dependent upon dealings with government or government run orgnizations. I wonder how many more would be suffering our fate?" That question was answered the following morning when I read the following AFP report datelined from New Delhi –

Seventy-six Indian Airlines (IA) pilots reported sick and stayed off work in a lightning anti-management protest on Saturday.

Airline sources said hundreds of passengers booked on domestic flights arrived at the airport here in biting early morning cold to be stranded by the pilot boycott minutes before scheduled takeoff. Twenty 1A flights originating from New Delhi were cancelled."

This strike, you and I know, surely added a few crores to the losses of Indian Airlines. How were these met? Your guess is as good as mine. Did the government acquire more debt on our behalf? Did it tax us more? Or did it simply order its presses to print a few more notes and hand it over to Indian Airlines?

-The railroad industry in the USA was in the forefront of the industrial revolution. It opened up the vast expanse of America and helped to transform it to a world power during the 19th and early 20th centuries. About the Indian Railways the less said the better. In spite of enjoying monopoly status it continues to depend on us the taxpayers to fund its operations. Railways in private hands had the potential to contribute to India turning into a superpower. One can only dream.

-Nowhere is the disaster so apparent as in telecommunications. In the USA, AT&T (which itself is semi-monopoly, though private) provides immediate telephone connections and an array of services unimaginable in India. Here we consider ourselves lucky to get a telephone connection at all and sending a readable fax is nearly impossible. *Asiaweek*'s communications manager Honorata Luna wrote (December 6, 1991) that to keep in touch with the magazine's host of correspondents throughout Asia, she uses virtually every hi-tech communication method available. "For India, I have to use telex, but for most other countries I can use electronic mail or fax."

On a visit to the USA I realized how easy it is to organize matters which seem so difficult and time consuming in India. An example, if you relocate and are looking for a dentist in the USA you call up a toll free number (1-800-Dentist) and get all the information you require about dentists in your area. This is the result of private enterprise working hand in hand with a private telephone company.

Most of the consumer companies have arrangements with the telephone companies (AT&T and MCI) whereby you get toll free access to a bank of operators equipped to handle your queries regarding the company's products. All toll free numbers begin with 1-800. Using letter which form words instead of numbers eg 'Dentist' is another innovation which makes it simple to remember them. My brother showed me how banks work hand in hand with telephone companies. He had to merely dial his bank by punching in various sets of numbers and have information available on mortgage rates, car loans, interest paid on deposits and the amount of money in his account. I would not even be able to begin comparing these facilities with what is offered – or other not offered – by our own government monopolized telecommunications.

AT&T has consistently given its shareholders an adequate return and funded its expansion. The Indian government has to tax us to run our telephones.

Nearly 5 decades after independence, our government realized that its policies have failed and will never provide a telephone to all our countrymen. It now talks of letting

foreign companies like AT&T do the job which private Indian entrepreneurs were never allowed to do. Nani Palkhivala rightly refers to the years after independence as 'the lost decades'.

-The nationalization of banks and insurance companies, and government control over financial institutions, have made trade and commerce that much more difficult and time consuming. The revolution in financial services the world over has passed India by. The woes of businesses and individuals dealing with our banks, insurance companies and financial institutions are known to everyone of us. While industry is starved of funds, money is poured into sick companies, government undertakings, 'load melas' and dubious employment programmes.

Recently I met a woman who worked in one of the nationalized banks in Lucknow. She reaches the office at least one hour late and does not stay back after 3.30 p.m. even though the office closes at 5.00 p.m., She says that it is absolutely unsafe as after 3.30 p.m. it is drinking time for the men and the bank turns into a bar. The telex operator in the bank has found an easy way of taking leave by fixing the telex machine so that it does not work. He then has to wait for someone to call someone to come and repair the machine. He, of course, does not consider it fair to perform any other job while this machine is being repaired. Hence he does not come to work at all for at least three days in a week, the period during which the machine is awaiting repairs.

-Some years ago, I visited the offices of the State Trading corporation (STC) in New Delhi. I could not even talk to any person as the entire staff had gone for tea. I was told that there is rarely any occasion when more than 20 per cent of the staff are at their desks.

In contrast I remember when I was training for chartered accountancy, and was an auditor of Mitsui & Co. at their New Delhi office. The Japanese manager reported to my principal if I was more than five minutes late for work. I was not even his employee yet he did not wish me to upset the discipline of his office.

-Industries, homes and offices have all suffered due to government's monopoly in most parts of the country in generating and distributing electricity. The thermal power stations blame the railways for not moving enough coal. The railways blame "Coal India" (another misadventure) for not mining coal in time. Whoever is to blame, the energy sector acts as a drag on the entire economy.

Ironically, the communist regime in West Bengal recently allowed a private company to distribute power. This has brought about a great reduction in power cuts in Calcutta. The company is assuring its consumers that there will be no distribution related outages.

After almost 50 years of senselessness, the government is claiming to have made a great discovery – that it will never be able to satisfy our electricity needs. After having thwarted our own private companies, it is now 'guaranteeing returns' to foreign companies and

defending its action saying "no power is more costly than power at any rate, but available". Are we supposed to start clapping?

We cannot realize the difference in quality, and what we are missing unless we compare our state owned radio and TV programmes with private channels abroad. The only fare our government shows is lessons on 'how to grow potatoes' (all serial or other popular production are courtesy of the private sector).

The phenomenal success of STAR & Zee TV is testimony enough to the miserable state of affairs that calls itself Doordarshan. News programmes are pathetic and devoid of credibility, featuring an endless stream of politicians cutting ribbons and laying foundation stones. Is it surprising that people have been driven in droves to switching on CNN? It is only in India that the news is watched on video (Newstrack).

The cost to us of maintaining these monopolies is immeasurable. Our highest imaginable estimate would be too little. We are simply not in a position even to comprehend, much less compute what might have been, had all these areas been left open to private enterprise. There is no way we can quantify the loss of creativity, innovation, quality, of what we have never seen and what might have been. It could have been private Indian companies shipping cars to the USA, Setting up power plants abroad, leading the communication revolution like AT&T, providing financial services the world over like Citibank, exporting planes as Boeing does, or telecasting to audiences in 53 countries in the manner of Rupert Murdoch's STAR TV.

The government's remedy for all this – sell off 20 per cent of the shares of some of the units. If we are serious that something has to be done then tinkering with percentages is not going to help. What is required is radical change. The entire public sector must be denationalized, bureaucracy dismantled, and free competition allowed. The money from sales could be given away to the employees or used to pay-off the debts government took on our behalf without our authorization.

There is nothing sacrosanct about any of the fields which the government has transgressed into. No, the government is not even required to build roads and bridges. Allow private enterprise to buy land and construct roads and bridges, and charge for their use.

If this concept is too extreme, let us experiment. Allow private competition to build new highways and bridges and charge for their use and see how many people choose to travel on pot-holed government built roads. Pakistan was seeking private investment for construction of toll highways, and so was Sri Lanka. Thailand has private toll roads. Britain and France have the channel tunnel or the 'chunnel' entirely funded by private companies. At least there is a great deal to be gained by turning over the actual construction, if nothing else, to the private sector. Moreover, paying directly is equitable. You pay as you use a

facility. People in Punjab do not get a tax levied on them for a bridge in Tripura which they will probably never even see in a photograph much less use.

One may not like the idea of paying for something which one has enjoyed free for so long. However, we are already paying and we will continue to pay whether it is straight charge levied for use of the facility or a tax levied by the government. Paying directly for any service we utilize will be less expensive than supporting a monstrous state run organization.

State governments across the length and breadth of the USA are finding out that it is immensely beneficial to delegate various traditional government tasks like garbage disposal, road construction, cleaning and sweeping the streets, etc., to the private sector. Costs are cut and, simultaneously, better services provided to constituents. In Philadelphia, in the USA, there is a newer concept of a 'private government'. People voluntarily contribute money for such tasks as keeping the streets clean. It works, and according to the *International Herald Tribune* of Sept. 20, 1991 the streets were sparkling. Contrast this with the streets of Calcutta, Bombay, Delhi or Madras.

If we want to usher in a new era where telephones work and we do not wait endlessly for connections but are actively wooed as potential customers; power outages are but a fading memory; airlines and railways compete for our custom and pamper us with special deals; bank employees do not consider it an imperial favour to serve us; we are not taxed for sustaining the losses and inefficiencies of public enterprises; then we have no option other than throwing the government out from those areas where it had no business to be in the first place.

8

TALES OF UNMITIGATED DISASTER: LABOUR LAWS, BROADCASTING, EDUCATION

Were it left to me to decide whether we should have a government without newspapers or newspapers without government, I should not hesitate a moment to prefer the latter – Thomas Jefferson

The economy grows at night while the government is sleeping.

– saying in Socialist countries

Our government has stepped into many areas where it never had any business to be. The results have always been uniformly disastrous. Some of the more obvious examples are:

-Labour Legislation

-Radio and Television

-Universities and Schools

OUTLAW LABOUR LAWS

This covers the whole gamut of various acts, rules, regulations and courts, all created for protecting the worker. What could possible be wrong with protecting the worker? Nothing. But there is plenty that is wrong with Minimum Wages Act, Payment of Wages Act, Industrial Disputes Act, Payment of Bonus Act, Trade Unions act, employees State Insurance, Provident Fund, labour commissioners, labour courts, inspectors and all the rest. Where government leaves off, the unions aided and abetted by politicians, the Trade Unions Act and other legislative enactments take over. Strikes and hooliganism are the order of the days even where wages are above the legally stipulated minimums.

First, all these laws are morally wrong. We have the state exercising its coercive powers to enforce something other than what is voluntarily entered into between consenting parties. It is for the employer and the employee to agree to the terms and conditions of

employment and no one else is entitled to interfere. Second, leaving morality aside, has government intervention bettered the lot of the workers? Unequivocally not.

Were it possible for unions or legislation to raise the standard of living, then it would not take long for us to reach the standard in the developed countries. The vast majority of our population would not be mired in poverty. Alas, legislators or unions, in spite of their good intentions, are not in any position to provide air-conditioners, cars, homes, TVs, VCRs or even the basic necessities.

WHAT IS WRONG WITH MINIMUM WAGE LAWS

In a free society wages would settle at a level where the demand matches the supply. Raise the wages and the result would be unemployment. Raise them more and unemployment goes up further. Would you rather be employed and earning lower wages, or be unemployed, earning nothing and starving?

Unemployment is really what supporters of minimum wage are advocating. It is a fundamental axiom of economics that an increase in price inexorably leads to reduced demand. Labour is not exempt from this reality. Increase minimum wage and you inevitably reduce number of jobs. No amount of good intentions or wishful thinking can after this fact.

For companies which pay the minimum wage rather than shut down, the cost of doing business is raised, and correspondingly there is less money for expansions which would have increased employment. Companies in marginal businesses do not come into existence as paying the minimum wage makes them unprofitable, exerting a further downward pressure on employment.

Unemployment, especially among the youth, cannot but be a major factor in social unrest, violence, racial and ethnic tensions and gangsterism. It is comparatively easier to recruit a jobless person for a terrorist organization.

In many instances the minimum wage laws have become irrelevant as companies are already paying higher salaries. However, even they have to bear the costs of having inspectors causing a nuisance.

The consequences are especially cruel for the poor, the young and those with low skills. The poorest of the poor who would have been employed at low wages find that jobs for them are not available. The young who have not yet acquired the skills for getting the minimum wage find it hard to find jobs with the companies where they could have worked and in time picked up the skills necessary for a higher wage. People with low skills similarly find they are shut out from jobs which they could easily have performed.

After all, the employer has to pay the minimum wage and if he can get a hindu elevator operator, why hire a person with a religion different from his own? The employer who

cannot ration by price (i.e. wages) rations by sex, religion, race, caste, or some other equally repugnant criteria.

Henry Hazlitt who did research on the effects of minimum wage laws in the USA made some very significant observations in *Economics in One Lesson*:

All this is not to argue that there is no way of raising wages. It is merely to point out that the apparently easy method of raising them by government fiat is the wrong way and the worst way.

This is perhaps as good a place as any to point out that what distinguishes many reformers from those who cannot accept their proposals is not their greater philanthropy, but their greater impatience. The question is not whether we wish to see everybody as well off as possible. Among men of good will such an aim can be taken for granted. The real question concerns the proper means of achieving it. And in trying to answer this we must never lose sight of a few elementary truisms. We cannot distribute more wealth than is created. We cannot in the long run pay labor as a whole more than it produces.

The best way to raise wages, therefore, is to raise marginal labor productivity. This can be done by many methods by an increase in capital accumulation – i.e., by an increase in the machines with which the workers are aided; by new inventions and improvements; by more efficient management on the part of employers; by more industriousness and efficiency on the part of workers; by better education and training. The more the individual worker produces, the more he increases the wealth of the whole community. The more he produces, the more his services are worth to consumers, and hence to employers. And the more he is worth to employers, the more he will be paid. Real wages come out of production, not out of government decrees.

So government policy should be directed, not to imposing more burdensome requirements on employers, but to following policies that encourage profits, that encourage employers to expand, to invest in newer and better machines to increase the productivity of workers – in brief, to encourage capital accumulation, instead of discouraging it – and to increase both employment and wage rates.

THE CURSE OF JOB RESERVATION

We have all seen the impact on our nation of the government trying to allocate its jobs to people by criteria other than merit. V.P. Singh's government's reservation policy where half the jobs (20 to 25 per cent reservation already existed) were sought to be reserved for certain castes and tribes brought the country to a standstill, and finally resulted in the government being unceremoniously shunted out. Nowhere else in the world have youth in such numbers immolated themselves but then no other nation has tried such an extensive

programme for reserving jobs. Hopefully some lessons were learnt from the divisiveness, the racial tension and hatred such measures sparked across the entire country.

We see, on one hand, the government holds down employment opportunities by deficits, taxations, pre-empting available capital. On the other hand it tries to offset the effect by minimum wages and job reservations and in the process aggravates the problem.

The next time you hear of job reservations, as yourself how you would like your children to study in a school where teachers are hired because they happen to come from a particular caste. How would you feel if you had an accident and the person who was operating on you had qualified as a doctor because he belonged to a scheduled tribe or had faked a certificate stating so. What would your reaction be at 30,000 ft. in an Indian Airlines plane with a pilot who qualified only because the selectors had to fulfil a quota mandated by the government. Am I exaggerating? No. Indian Airlines does have a quota system for its pilots. Perhaps, you are as shocked as I was when I first learned this from a pilot friend of mine.

His bitterness with Indian Airlines was all too apparent and his disenchantment was nothing more than what was felt by all pilots working for Indian Airlines. Half of Indian Airlines crashed in the past few years had taken place with pilots hired, not on basis of merit but, to fulfil quotas mandated by government's job reservation policies. Government dictates to private enterprise the labour practices they should follow; the example of Indian airlines shows the enlightened policies government follows when it goes into business.

CHILD LABOUR – DO WE ABOLISH BY LAW

What about child labour? Ah! Definitely the government should stop this nefarious practice. Understand that factory owners have no power to force children to work if they do not wish to. However much of an exploitation child labour is, the reason they choose it is that without working they would be in an even more pitiful condition.

Prohibiting child labour does not make children happy and contented, it drives them to beg, steal or seek lower paid, riskier jobs with employers willing to take the risk of illegality. They will now definitely not be obtaining easy work with regulated hours and comparatively decent wages in modern factories as these are regularly honoured with visits by government inspectors. In order to exist they will find jobs in older, out of sight, dilapidated factories, work as domestic servants, or live on semi-starvation wages at farms. Many will come to the big cities and beg, steal, become pimps or prostitutes. Are we blind not to see children beg in every city in India?

No amount of legislation is going to rid our country of child labour. Would the politicians who pass such legislation be personally prepared to take care of the children?

What do they think they achieve by banning child labour? They make it that much more hazardous and exploitative for the child.

Yes, children will stop working when the incomes of the parents rise sufficiently to make their jobholding unnecessary. This will happen soon enough if we leave people to their own devices and stop passing such stupid legislative measures. Laws will not abolish child labour, capitalism with its attendant prosperity and wealth for all, will.

T.S. Ashton reminds us in *The Industrial Revolution*:

There are today on the plains of India and China men and women, plague-ridden and hungry, living lives little better, to outward appearance, than those of the cattle that toil with them by day and share their places of sleep by night. Such Asiatic standards, and such unmechanized horrors, are the lot of those who increase their numbers without passing through an industrial revolution.

HOW TO INCREASE WAGES

Provident fund and other compulsory savings statutes operate almost like taxes. Government pre-empts this capital, credits (not pays) interest much lower than the inflation which it has created. We end up by paying the government for the privilege of using our funds against our wishes.

In the remote interiors of mountainous Nepal, women spend half their time in carrying water to their homes. The life expectancy of people there may not be more than 40 years. A sweeper employed with a big company in New Delhi is not well off but with his paid off days and holidays still ekes out a living. A doorman employed in a Los Angeles hotel would not be considered rich but would certainly afford a car.

All three jobs require no skill and involve only manual labour. The physical exertion is the least for the doorman in the USA and yet he gets paid a small fortune by Nepalese or Indian standards. The difference is due to extra capital, factories, industry and hotels in the USA that increase labour productivity. These are the blessings of capitalism.

When some politician or labour union leader thunders about the welfare and rights of workers and glorifies his work, remember that a villager in Bihar with no products capital and exerting himself as much as the doorman in Los Angeles, would very soon starve to death.

Ludwig Von Mises says:

What is called the American way of life is the result of the fact that the United States has put fewer obstacles in the way of saving and capital accumulation that other nations. The economic backwardness of such countries as India consists precisely in the fact that their policies binder both the accumulation of capital and the investment of foreign capital. As the

capital required is lacking, the Indian enterprises are prevented from employing sufficient quantities of modern equipment, are producing much less per man hour and can only afford to pay wage rates which, compared with American wage rates, appear as shockingly low.

The worker's productivity and hence his remuneration depend on a country's development. It is possible for India to make spectacular progress but first the government's deadening influence has to be removed. Businesses must be allowed to flourish and capital accumulated in private hands, then and only then will the people of India get out of the morass of poverty.

Creativity, innovation and new discoveries are fostered in a free environment, and when this happens all of us gain. Workers find that machines do the backbreaking menial jobs, physical labour is reduced as they work fewer hours and enjoy unprecedented leisure.

Japan which has put fewer restrictions and has virtually no public sector, faces a tremendous shortage of people willing to do menial physical labour. Foreigners from Asian countries like Pakistan, or elsewhere, who manage to sneak in find that they can earn Rs. 75,000 or more every month in construction jobs. Their work would not be worth a twentieth of that in their home countries.

India today has no shortage of men who could set alight the flame of a capitalistic revolution; there are enough people who are prepared to work hard, possess the drive and initiative, can innovate, save, trade and take risks.

Indians in the USA have done far better than even the Japanese or the whites. In African countries like Nigeria, Indians have propelled themselves to the top economic status and have become indispensable for trade and commerce. In Hong Kong, Singapore, Australia, UK, Mauritius, Fiji and elsewhere, Indians have done extremely well. There is no reason to suppose that Indians cannot do in India what they have done and achieved in the rest of the world.

RADIO AND TELEVISION – BAN BRAINWASHING

The mind of man created a whole new property virtually out of thin air. Broadcasting and telecasting through space was the wondrous product of science, technology and the industrial revolution.

In controlling the airwaves, governments around the world controlled the dissemination of information, knowledge and pleasure. It is a monumental tragedy that this whole new vista created by science has largely been closed by the benumbing hand of government before it even opened properly.

Luckily, however, man's innovative capacity has again come to our rescue. Videos and satellite transmissions have greatly blocked the government's ability to control what we see and hear. We are now witnessing the sorry spectacle of STAR & Zee TV – both controlled by Rupert Murdoch, a foreign national – targeting Indian audiences, while our own countrymen are prohibited from privately owning radio & TV stations within our own country.

There is talk in India of opening a TV channel for a private station. This, if it happens, can only help in our having a wider choice of programmes. This, however, is not good enough. If we want a revolution in telecasting, and wish to see TV and radio in India compete in the world, then we have to disband the Information and Broadcasting Ministry and turn over all, repeat all, channels to private enterprise.

If, after independence, India had allowed private broadcasting, then today it might have been an Indian company straddling the globe like CNN. It might have been an Indian company targeting western nations with entertainment programmes. Alas! Those opportunities are gone. At least, now we must move in that direction and there is not a day to lose.

There is nothing special about radio and TV that they have to be government controlled. The frequencies over which they operate is as much a property as anything else.

The government's role must be the same as for any other property, i.e. to see that only the rightful owners use the frequencies. Trespassers much not be allowed to broadcast on the same channels.

Initially, had the government not arrogated to itself the monopoly over broadcasting, then frequencies would have belonged to the company which first set up a transmitting station and started broadcasting on that particular channel. In the same manner all the available frequencies would be assigned and become private property. Now since this method is no longer feasible, the government should sell channels at the highest price it can get. Once sold the frequencies become private property in every sense of the word. Since the frequencies so sold would not be infinite, they would posses a value. Only those companies which could use this resource most effectively would retain ownership, others would sell it and move on.

Many of us watch CNN. Compare the quality of its world wide news coverage with what is dished out on Doordarshan. In India, people first heard about Rajiv Gandhi's death not on Indian radio or TV, which chose to maintain an eerie silence, but on CNN. CNN is not even one of the most popular of channels in the USA. Viewers have a choice of perhaps a 100 channels including three major networks besides cable. Now you may begin to get an idea of the extent of our loss as viewers, potential employees, or advertisers since our TV and radio have been government monopolies since independence.

Until I watched Larry King and Cross-fire on CNN I could not believe that talk shows and discussions could be so riveting. In India do you sit through Doordarshan's discussion programmes? Another feature of the talk shows in the USA is to take live calls from viewers. An unthinkable proposition in India given the reality of the state owned TV and telephone.

UNIVERSITIES AND SCHOOLS – STOP THE CHARADE OF EDUCATION

When I enrolled as a student at Delhi University's prestigious Shri Ram College of Commerce, it came as a complete shock to discover that students attended at their whim and fancy and teachers took classes only if they felt like it. It was not pleasant to spend two hours commuting to college then finding that the class had been cancelled. The syllabus by itself did not require more than one month of study to pass examinations. I was so appalled and outraged at this waste of time that after six months I gave up my seat at the college, joined an evening course to secure the B.Com (Hons.) degree and did Chartered Accountancy during the morning hours.

At evening college I discovered it was easy to get away with attending only 10 per cent of the lectures by working the system. It not only allowed absence for a variety of reasons (I was always bedridden with typhoid or affected by floods), but teachers were ever willing to mark me present, whether I attended or not.

One of my subsidiary subjects was English and during the whole year I never even saw the teacher. I was then informed by the office that If I did not have the required attendance. I would be debarred from the exams. At that point, I managed to locate the residence of the lecturer and obtained the necessary attendance.

This particular lecturer hired at tax payers' expense, did not even come to the college more than three or four times during the year. The exam could be passed by studying for two to three days. It made me wonder how much resources were being squandered on the real estate, buildings and the salaries of teachers, administrators and other bureaucrats who are employed by the University of Delhi and other such exalted places of learning throughout the country when neither staff, nor students were performing.

As might be expected, government in education is no better than government in business. The performance is an abysmal. Colleges and universities are run exclusively by the government and have become happy hunting grounds for politicking with every political party having its own students and teachers union.

Huge resources contributed by our destitute masses are going into supporting an educational system which hardly adds to knowledge. Universities and colleges pre-empt funds and possess vast amounts of resources (lands and buildings) which are being wasted on students who are not serious and on teachers who are even less so.

Students go to colleges to have fun, socialize, obtain a subsidized bus pass, while away time and gain a cheap degree, or a dubious status i.e. for anything but study. Is it any surprise that your degree does not guarantee you a good job or even any job at all. For employers, and especially government employers, it has become a means of rationing scarce jobs among numerous applicants. For getting any decent job, however, you have to get some further qualification or training from a professional or technical institution where government influence is not as pervasive.

Colleges are funded out of taxes exacted from you and I. Besides, they occupy prime lands in cities which are suffering from Exorbitant real estate values. These resources, if freed, could easily be spend on education as we deem fit. Instead of sending our children to colleges for education which is free and hence not valued, parents and students would select private institutions where they would pay and obtain education which is valuable.

There is a tremendous inequity in our education system. Universities and colleges are concentrated in major cities. Seventy per cent of our population residing in rural areas has very little if any access to them. The poorest of the poor cannot afford to while away three years in a college. They have to start earning at a much earlier age at whatever menial or back-breaking jobs they can get. Everybody contributes towards running the colleges (through taxes and government deficits) while the benefit, if any, goes to the few who are relatively better off. The poor subsidize the rich and the middle classes. What an unimaginable travesty!

Whether it is education or labour, it is competition which protects all in a free market capitalist society. Competition among the employers protects the employees. Competition among the schools and colleges protects the students. If students were free to select a particular institution of learning over another, by voting with their rupees, learning would increase tremendously. Private competition which gives the world an increasing array of consumer goods, he it TVs, radios, cars, refrigerators, housing or air-conditioners, would make education also infinitely better.

Let us look at the US government's performance in running schools. Almost no one is happy least of all parents. George Bush wanted to be known as the Education President. He could accomplish nothing and neither will Clinton.

The USA has been a real life experiment in the absolute failure of the government in education. If the US government, with its infinitely higher resources, where it spends over a $ 100 billion (Rs. 310,000 crore) on education annually, failed, what chance of success do we have?

Milton Friedman observes about education in America:

We have growth richer over the decades. We have expended our knowledge of the universe. 'Nonetheless', concludes President Reagan's National Commission on Excellence in

Education in its report, A Nation at Risk (April 1983), 'the average graduate of our schools and colleges today is not as well educated as the average graduate of 25 or 35 years ago.' Has education deteriorated because we are spending less of our increased income on the education of our children? Not at all. Expenditures, both governmental and non-governmental, on elementary, secondary, and higher education have more than doubled as a percentage of national income since 1929, rising from 3.8 per cent in 1929 in 8.5 per cent in 1981. Per pupil expenditure in public elementary and secondary schools (adjusted for inflation) multiplied more than five fold in the same period (from $ 395 to $ 2,275).

Most of the $ 100 billion in government funding has gone to support the elementary and secondary schools and it is here that the situation is most dismal. In higher education at colleges and universities in the USA – even though government involvement has increased – there exist a number of private institutions actively competing with each other and thus maintaining the quality of education.

Any step towards a free market reform in India will be vehemently opposed by teachers, professors and the big bureaucracy spawned by our system. The entrenched vested interest will fight hard and long for retaining their privileges.

Teachers in government institutions do not have to show results, their jobs are secure whether their students do well or not. When did you last year of a government teacher being fired for incompetence? Do government teachers ever get penalized when their students perform poorly? The leave with pay available for lecturers and professors is a scandal: winter vacation, summer vacation, medical leave, sabbatical leave, leave for higher studies. No teacher comes to work for more than 180 days in a year and if they would rather sit at home or do something else it would be easy enough to get away with it.

When my mother, a principal of a Delhi University College, advocates the continuation of the present system, absurdly called free education, (absurdly since it depends on expropriation of money from all of us) I ask her in the words of Isabel Paterson "Do you think nobody would willingly entrust his children to you and pay you for teaching them? Why do you have to extort your fee and collect you pupils by compulsion?"

9
THE POOR: CHARITY AND REDISTRIBUTION

Our model has failed… And I believe that this is a lesson not only for our people, but for all people – *Mikhail s. Gorbachev, International Herald Tribute, September 7-8, 1991*

> *We are enslaved by our… mistaken notion that government must dole out, subsidize and cater to every need.* – Philippine President Fidel Ramos, Asiaweek June 22, 1994

ELIMINATE POVERTY NOT POOR

One question which always comes up whenever I am attempting to convince someone about the need to downsize government is 'what about the poor?' Am I being hard-hearted ignoring the starving millions, whose only sin is being born poor? No, I unequivocally reject all such criticism.

Apart from the immorality of forcing you or I to part with our money for helping someone against our will, is there any other consideration? Yes. Redistribution of wealth simply does not work. There is just not enough of it to go around. It has not worked in any country be it the USA, the former USSR or India.

Irving Kristal in June 28, 1978 issue of Wall Street Journal says,

In such (developing) countries the alleviation of poverty is utterly dependent on economic growth. There is never enough money among the small number of wealthy citizens to make a significant dent in the poverty of the masses.

When attempts to redistribute income have proved futile in the USA, how can they ever succeed in India? "Union leaders always talk about getting higher wages at the expense of profits," says Milton Friedman in *Free to Choose*. He goes on to add:

Profits simply aren't big enough. Corporate profits – which is what union leaders always point to – total less than 10 per cent of national income. And that is before taxes. After taxes, corporate profits are something like six per cent of the national income. That hardly provides much leeway to finance higher wages, even if all profits were absorbed. And that would kill the goose that lays the golden eggs. The small margin of profit provides incentive for investment in factories and machines, and for developing new products and methods. This investment, these innovations, have, over the years, raised the productivity of the worker and provided the wherewithal for higher and higher wages.

In communism able to make people imbibe egalitarian ideas? Did it really make people willingly sacrifice what they have in the name of redistributive justice? We may doubt this very much when we see people waiting in lengthy queues to shop for meat and other necessities in Moscow. After all, knowing the Shortages, good communists should be willing to leave scarce products for their comrades. Communism or no communism, human nature does not change. Self interest does provide the motivation, be it communist Russia, or the capitalist West.

A joke which circulated around Moscow shows the inability of communism to alter our basic instincts. A USA researcher in the former USSR asked a peasant farmer if he had two television sets, would he give one to his neighbour who had none? Yes, replied the peasant. If he had two tractors would he give one to his tractor-less neighbour? Yes, the peasant said. And what if he had two shirts, would he give his poor neighbour one? No, answered the peasant. "Why not?" asked the researcher. "Because I have two shirts."

Did communism in the former Soviet Union bring about equality? Did it bring about prosperity? Neither. It gave their army nuclear weapons but kept its masses in a state no less pitiable than of any third world country. While Andrei Gromyko, the former foreign minister, had a private elevator to whisk him to his office at the Kremlin, his countrymen spent hours out in the cold standing in queues to obtain a loaf of bread. The privileged party bosses enjoyed foreign travel, the people had to seek 'approval' to move from one village to another. Undoubtedly, though, a certain brand of equality was achieved. While in the USA every family enjoys a reliable car, highly sophisticated telephone system, a 100 TV programmes to choose from, access to supermarkets, affordable safe air travel, no one in the other former 'superpower', whoever he might be, can enjoy any of these luxuries.

In our country, we have seen how the burden of taxes, inflation and state managed public sector undertakings falls disproportionately on the poor. The poorest of the poor bear the brunt of inflation caused by government expenditure, yet it is the comparatively well off whom will get the benefits from government-aided and subsidized education. The children of the poor are in no position to have the luxury of going to college for a degree. They would of necessity have to start earning much sooner.

In India, as in other underdeveloped countries, there is hardly any class of people who receive more from the government than they contribute to it, except perhaps the bureaucrats and politicians. The policies beggar everyone. The burden of taxes, inflation and government debt falls on rich and poor alike. Bureaucratic procedures, delays and losing government enterprises all help to keep us a third world nation.

George J. McManus in Defence of Prosperity says:

In spite of the free market's record in producing abundance, most developing countries have gone to state-oriented systems with emphasis on avoiding profiteering and

concentrations of wealth. This is a paradox, because it is these developing nations that should have the greatest concern for creating wealth."

India's greatest failure is in creating wealth. Before we give a phone to everyone we have to have the phones and the lines. Currently there is only one phone for every 127 Indians. In the USA there is one for every 1.3 of its citizens. Given the situation redistribution is clearly impossible. There is just not enough. Before we have a chicken in every pot, there have to be enough chickens to go around. What is said of telephones and chickens is equally true of electricity, housing, cars, TVs, refrigerators and capital. There is just not enough.

The way to salvation for India lies not in shuffling income around, *for everytime this shuffle is effected a great amount is consumed by our bureaucracy*, but in leaving people alone to earn and to keep their earnings. Allow Indians to be free and private enterprise will produce enough wealth bringing prosperity to all. The only hope for today's impoverished masses lies in an exuberant, free, capitalist economy.

Henry Ford made his fortune by providing millions of people with a cheap and convenient mode of transport. Today, US and Japanese car-makers depend on huge markets to fund their research, and to profit. They rely on every American family owning two cars; they do not depend on a handful of Americans owning 10 cars each. AT&T, the American telephone company, makes its money because every American house has a phone. The airlines in the USA make money because everyone can afford to fly. On a domestic flight in the USA from Seattle to Las Vegas the person sitting next to me was a gardener going for a holiday to the casino capital. Do you know of any gardeners in India who have even been in a car?

It is an absolute and total misconception that capitalism exploits people. As we have seen, the only way to make a fortune under this system is by producing something of value. Something which an increasing number of people desire and can afford to possess. General Motors would like all Americans to be able to buy its cars, so would Ford Motors, the Japanese Toyota Motor Company and Honda. That is what they all advertise for. If this he exploitation let you and I be exploited.

Capitalism creates wealth by creating an unending array of products which makes life convenient, easy and gives us an ever increasing amount of leisure time. In the days when Thomas Jefferson was President of the USA, the average American had to work an 85 hour week. By the end of the civil war it was 70. At the turn of this century it fell to 60. In 1929 to 50, and 30 years later to 40. Today manufacturing employees typically work a 38 hour week which includes paid holidays, unknown even a few decades ago.

Capitalism in the USA brought prosperity for all. The work week was reduced even for the lowliest worker enabling him to enjoy 'the good life'. In the process of creating products, capitalism pays wages which generate demand for its products. Thus simultaneously we find more choices of consumers, more employment opportunities for workers and more

demand for products. This is the capitalistic cycle which leads to growth and prosperity for you and I, and him as well.

Can you visualize telephone companies, TV manufacturers, power generation utilities, rushing in with resources to tape the lucrative Indian market which, after China, has the world's second largest consumer base? I can. But first the government has to step aside and leave the field clear. It has to scrap all monopolies, repeal all the useless laws and left free enterprise prevail. No one can even begin to imagine the quantum of progress under such a scenario. Poor would not remain poor. Private enterprise, as it meets the pent up demand, requires workers who in turn create more demand. Very soon luxuries become necessities to be enjoyed by all.

Under such a dynamism of wealth creation, it is left to you to figure out whether and what fraction of our people would still really need to be dependant on charity.

CHARITY BY THE PEOPLE

Lest you think that I am against charities – no, I am not. Charity is part of human nature which has been suppressed by government interference in two ways. When government takes over the obligation of helping the less fortunate, the individual neglects to do so, with a clear conscience. However, even if the individual wants to help, taxes largely deprive the individual of spare resources to help the needy. He is needy himself. Taxed out of existence are today's entrepreneurs who might have emulated Alfred Nobel and set up prize funds to benefit the world.

Milton Friedman in *Free to Choose*, writes about the flowering of charitable activity in the USA in the 19th century –

Privately financed schools and colleges multiplied; foreign missionary activity exploded; nonprofit private hospitals, orphanages, and numerous other institutions sprang up like weeds. Almost every charitable or public service organization from the society for the Prevention of Cruelty to Animals to the YMCA and YWCA, from the Indian Rights Association to the Salvation Army, dates from that period. Voluntary cooperation is no less effective in organizing charitable activity than in organizing production for profits.

The charitable activity was matched by a bust of cultural activity – art museums, opens houses, symphonies, museums, public libraries arose in big cities and frontier towns alike.

My father-in-law founded and runs 'Lok Kalyan Samiti' a voluntary non-profit institution. The objective is providing subsidized and, in deserving cases, free health and medical care to the needy. It performed cataract operations in villages around Delhi entirely free and restored eyesight of thousands of patients. It depends on contributions by foreign

organizations and on voluntary private donations. It was able to carry out a highly successful advertising and promotion campaign for raising funds within India for its eyesight restoration programmes. It never asked for nor did it ever receive any money from our government. Hinduja's hospital in Bombay is another example. There are many such organizations, trust and hospitals funded by non-coercive charitable contributions and there would doubtlessly be many more but for our government.

Private voluntary charities are far more efficient and beneficial than government ones. They are moral, they have not used force to extract dues from an unwilling public. The only interest of men who found and fund these is to see that the funds are wisely spent, the maximum number of people benefit, and resources are used most productively.

When government gets involved in charity the amount it takes from us is far in excess of what it gives back to us. The rest goes to fund administration, bureaucrats' fat perquisites, and to those who understand and beat the byzantine system, not to those who really need help.

Indians believe in rebirth and karma. What we do in this life is supposed to affect our fortune in the next. If we are charitable in this life, other will be the same to us in the next, so my grandmother passionately believed. If you are charitable, God will forgive you your sins, she used to repeat constantly. Beggars and the other on her dole might perhaps have managed without her help, but I have my doubts as to whether she – determined to achieve Nirvana – would have managed without them. My mother's great desire is to leave land to be developed for an orphanage. You could relate to this with ease as I do not think our family is any more of a charitable nature than yours.

With a religion which strongly espouses charity above all, we should have no doubt that voluntary charities will be formed, and will take care of any person who might still be in need, after a capitalistic resolution. I am fully for such charities formed and run on a purely voluntary, non-coercive basis.

10
COUNTRIES OR JAILS?
BORDER AND POPULATION CONTROLS

They (immigrants) came by the millions, and by the millions they were absorbed in the US prior to World War II. They prospered because they were left to their own devices – Milton Friedman

The right most valued by all civilized men is the right to be left alone. – US supreme court Judge Louis Brandeis

VISAS, IMMIGRATION AND CUSTOMS

Have you even read what's on your passport? If, like me, your passport is Indian, you will see it bears the legend: "These are to request and require in the Name of the President of the Republic of India all those whom it may concern to allow the bearer to pass freely without let or hindrance, and to afford him or her every assistance and protection of which he or she may stand in need."

Hypocrisy is not the prerogative of our government alone. Governments all over the world put similar wordings on passports and then keep increasing restrictions on travel. There may be some notable exceptions like the right of free travel for citizens of countries within EEC, but they only go to prove the rule.

This is yet another example of the government trying to turn the clock back. It is a tragic irony that the new vista of air travel launched at the beginning of this century is under concerted attack by governments the world over.

We cannot do much about how the rest of the world treats our citizens, but surely something can be done about travel to and from India. If you want to travel abroad, you have to overcome the obstacles of immigration, customs and emigration procedures not to mention the ubiquitous overhang of the Foreign Exchange Regulations Act (FERA).

When I told a friend from Switzerland about the restrictions which Indians suffer while leaving their own country, even for a holiday, he couldn't believe it. I have to show him copies of the customs regulations. Several books have been published on the subject, including the Handy Customs guide by N.W. Alimchandani. From here I proved to my friend that I could not take out of India more than one kilogram of tea, among a long list of other products. Why? Undoubtedly the Indian government presumes I would sell whatever I took

out and spend the foreign currency abroad. As for taking out some Indian currency to pay your taxi fare on return, forget it. You'll be committing a crime.

Why should you have to clear customs when you leave India? Isn't it just another example of government gone berserk? After a little reflection, I realized that if once you accept the necessity of controlling foreign exchange, many other controls follow naturally. Exports are controlled by inspectors, documents and exchange control specialists as people can keep their export earnings abroad. Talk about control breeding controls! The answer lies not in trying to control and control still more but in decontrol. Eliminate foreign exchange restrictions and many other controls impinging on our liberty become superfluous as well.

Today, it may be difficult to imagine travel without formalities and permissions, but it was not so long ago that people could travel to most parts of the world virtually unhindered. Now, most of us have resigned ourselves to queuing at airports, immigration counters, embassies for visas and being subjected to intrusive and invidious customs checks by ill mannered minions of authority.

Business India (October 14, 1991) carried a story about the success of Indians making a career in computers in the "Silicon Valley" in the USA. Some of them tried to interest their USA employers to invest in India, but the hurdles of petty officialdom sabotaged most projects.

An Indian entrepreneur from the valley wanted to bring in a computer workstation (paid for with his own dollars) to set up a software company in Bangalore. He was asked by a senior DoE (Department of Electronics) official in Delhi to produce a certificate from a lawyer that his computer was fit for software development! The president of the Silicon Valley Indian Professionals Association, Prakash Chandra, commented: "These officials should be willing to help rather than crease problems for the businessman before a foreign investor – NRI or Non NRI – feel confident about investing in India."

Think of the last time you, or a friend, arrived back in India. How long did it take you to clear immigration, exchange control and customs? If you were coming from Dubai, Hong Kong or Singapore, probably as long as the flight you came in on! And the procedure would have left you feeling like a criminal.

Tavleen Singh writes in Indian Express on June 19, 1994:

If Nehruvians need a lesson in just how vicious the babucracy can be, they need to spend a morning at any of our international airports. There, they would get a chance to see just how badly Indian workers returning from foreign lands get treated when they return to the motherland. These workers went abroad without any help from the Government. Many sold off all their meager assets to go and sweat their guts out, alone and friendless, in some of the most unattractive countries in the world, so that they could send valuable foreign

exchange home to India. And when they return, carrying their cheap tape-recorders and their clutch of nylon saris they are treated like thieves by our babus … Does it make sense?

If it is annoying for us to enter our own country, imagine what it must be fore foreigners coming here on holiday or to invest. Instead of its grandiose schemes – backed by vast budgets – to develop the tourist industry the government could create a multi-billion dollar tourist industry overnight, without spending a rupee. How? Just by abolishing all these irksome and pointless visa, airport, border, exchange and customs controls.

There is, however, one control sign that I would like installed at our international airports:

TAX Collectors & Government Regulators Beware

India does not welcome you.

If identified, you will be fined and summarily deported.

Are controls not necessary for keeping criminals and spies out? If you say yes, then it would justify every state, city, town, village, locality and perhaps neighbourhood invoking the same argument to implement similar controls. This did happen in the communist countries. The former USSR, the former East Germany were jails. The present day Cuba, North Korea and Burma are jails. It is only now that the former USSR has started to dismantle the controls that effectively stopped the movement of people from one part of the country to another. Why should people be subjected to this annoyance at certain designated points and not at others?

Criminals and spies well know the checks they will face and are prepared with forged documents, multiple passport and the like. Have you ever thought about the efficiency and integrity of underpaid, uneducated immigration inspectors with blank and moronic looks? Can they spot any real offenders? I think not. In any case, whether they do catch anyone or not, they certainly end up harrying you, I and all the other travelers. The police should do its job unobtrusively and not by harassing everyone.

There may be a need to carry out spot checks at airports, railway stations, ports or bus depots. This should be done by competent officers when their suspicions are aroused or on basis of identifying photographs. These would be far more effective as will lull a fugitive into a false sense of complacency. Random checks scientifically performed by trained eyes are far more effective than a routine monotone of continuous checks which everyone knows about. There may also be a reason to check everyone for a few days if there occurs, say, a big jailbreak. But all these are exceptional circumstances. They certainly do not provide a carte blanch to the government to treat everyone as a potential felon until proven innocent by

checking passport numbers.

India is not the only country that exercises unnecessary control over immigration. Getting a visa in a communist country is even more immigration. Getting a visa in a communist country is even more humiliating that in India. Lifestyle guru, Dr. W.G. Hill in his treatise PT recounts a visit to Czechoslovakia in which getting his visa extended resulted in insults and several queues, (Incidentally the various queues involved in his buying toothpaste consumed nearly three hours.) He also observes that countries saddled with exchange control regulations will not accept their own money from foreigners for anything – only foreign exchange. Sounds familiar.

Developed countries restrict immigration so as not to be inundated with the destitute of the Third World. We are left to wonder whatever happened to America's ideals which inspired the following inscription on the Statue of Liberty: "Give me your tired, your poor, your huddled masses yearning to breathe free, the wretched refuse of your teeming shore, send these, the homeless, tempest tossed, to me: I lift my lamp beside the golden door."

The *voluntary exchange ethic* brooks no justification for immigration controls. Citizens of a country would deal with a foreigner only if they expect to gain and the same would apply to the foreigner. To prevent this, is again an example of the state's coercive power abrogating our freedom of choice to deal with whom we want to.

Study after study in the USA has shown that immigrants do not take away jobs. They in fact intensify economic growth and lead in a very short period to more job opportunities. Each person who comes in, creates a demand for goods and shares in infrastructure costs be it roads, airports, hospitals, schools, defence or the police. Immigrants also pay far more in taxes, and share be benefits much less, as government entitlements are not available immediately. Even if one contends that immigrants obtain more in welfare benefits than they contribute in taxes, the right remedy is to abolish all welfare entitlements and doles, not to curb immigration.

Local people take a dim view of foreigners coming and occupying their jobs. It is forgotten that foreigners also create demand for cars, housing, food products, provide their savings for investment and thereby generate employment. Many immigrants bring in sorely needed capital, technical skills and entrepreneurial ability.

THE MORE THE PEOPLE…

The USA is the best real life example of absorption of immigrants. Except for a minuscule minority of native Indians, the rest of the population is entirely made up of migrants. They came by the millions. When they came they did not expect nor receive government grants nor did they find the streets lined with gold. What they did find was freedom and

opportunities unshackled by government controls. These immigrants then made the USA into the mightiest never known to man. Can those in the USA advocating curbs on immigration justify the action of their own forefathers in coming to a country belonging to the native Indians?

You might well say "that was then and now is now. America cannot possibly take in an unimpeded invasion of foreigners – it is simply too full." What is the definition of too full? Has anyone computed the optimum population or is it even possible to do so? Absolute figures have no significance as the land mass of various countries differs. Therefore, let us relate the population size to an area and look at how many people live per sq. kms. In different countries.

In the USA there are 26 persons per sq.km. Contrast this with Japan – a country with hardly any natural resources and 327 persons per sq.km. Japan, which stood vanquished, humiliated and devastated at the end of World Ward II, had in 1991 a per capital GNP of US$ 23,570. It had exceeded America's figure of US$ 21,600. In 1990, Japan replaced the USA as the world's largest donor of aid to developing countries.

Japan developed due to lower government intervention. US businesses were overburdened with cumbersome rules and regulations, and taxed to maintain public welfare and super power status by mammoth defence expenditures. Japan was relatively freer and its government spent less.

The 327 persons per sq. km. in Japan helped by providing a domestic market base and increasingly well paid, trained and motivated work-force. Contrast this with the former USSR which, with only 12.6 persons per sq.km. and a generous endowment of natural resources, collapsed under the weight of its collectivist statist rule.

Japan's population per sq. km. is 12.5 times that of the USA. If the combined population of China, India, USSR and Indonesia were to be transported to the USA it would still be 20 per cent less crowded than Japan! We have not even talked about Singapore, Hong Kong and Monaco which, with populations of 4,200, 5,200 and 15,000 per sq.km., are respectively 13, 16 and 46 times more crowded than Japan. Talk about the world getting overcrowded! Each of these places has growth rates higher than even Japan. Each of these countries has had comparatively lower levels of government intervention in the economy.

India, with its 300 persons per sq.km. is less crowded – not more crowded – than the UK, West Germany, Japan, Singapore, Hong Kong and Monaco.

Absolute nonsense! India less crowded! You must be joking! What about all the traffic jams, the congestion in the cities, the skyrocketing prices of land, slums, scarcity of housing, long waiting period for telephone, telex and fax connections, shortage of cooking gas, queues and constant sold out status of railway and airline tickets, lack of funds and high interest rates charged to business, runaway inflation, unemployment, underemployment

and poverty? Are all these not related to the burgeoning population which nullifies all our development efforts? Well, government would have us believe just that.

We forget that in all these areas the strangulating tentacles of government are omnipresent. It is the government which plans the cities and controls development, parcels out land on leasehold basis at a snail's pace, blocks the shifting of old, obsolete and dangerous factories away from city limits. Delhi politicians, to protect their vote banks, did their utmost to prevent DCM Ltd. from shifting its hazardous chemical factory outside Delhi to release extremely valuable land for commercial and residential purposes. Similarly, Bombay textile mill owners are being prevented from shifting their operations.

Government has monopoly over constructing roads, bridges and flyovers. It has had exclusive rights to run railways, telecommunications, airlines, and supply cooking gas. It issues worthless paper to finance deficits, has nationalized and now owns all the principal banks and financial institutions and pre-empts most of the funds for its own misuse. *How, then, can be blame be shifted to the exploding growth in population?*

HOW MANY CHILDREN TO HAVE? – WHO DECIDES?

There are many such examples of government intrusion causing the problems in the first place and then these very same problems being used as a rationale for even further controls. Take family planning. The number of children to have is a personal matter. It is indefensible for the state to intrude in so private a matter.

Mercifully, in India we are being spared direct compulsion and forcible sterilizations – thanks to the great public outcry against such measures by Sanjay Gandhi during the two infamous years of emergency imposed by India Gandhi.

China with its communist regime, has no such qualms. Family planning is strictly enforced by the state and the number of children is controlled by threats of dire penalties. An alarming increase in female infanticide has occurred as parents, being permitted only one child, want a boy. No official report or comment is available. China's population density at 110 persons per sq.km is less than half of India's. 33 per cent of Japan's and only 2 per cent of the capitalist Hong Kong (which is also the home of the Chinese and where – in spite of the looming shadow of 1997 – people continue to progress at a dizzying pace.)

Politicians and bureaucrats are not fond of accepting responsibility for their actions. It is very easy for them to blame all that aids the country on population explosion, immigration and everything else other than the folly of their own actions. They come to believe the myth of over-crowding because they want to believe it and then go on amazingly to convince the rest of the US as well. Even two of the world's most land rich countries – Australia and Canada with populations of barely 2.1 and 2.6 persons per sq. km. – severely restrict immigration on various pretexts.

People are not the responsibility of the state. Everyone has to manage on his own and in doing so he becomes to buyer and a seller. The exchange, being voluntary, benefits everyone. No one loses and one person's gain does not come at the expense of another. The more the people the lower is each person's share of the cost of basic infrastructure. More users mean lower contributions required from each one of us to cover costs of roads, bridges, defense, police, dams, cinema halls, films, videos, TV programmes, magazines, etc.

One example makes this clear. A film producer can offer a better, more expensive production and charge lower prices for cinema tickets or video rentals if he has a larger audience compared to a smaller one, Isn't that the reason why English films are of a better technical quality with superior and more lavish sets, and more realistic action scenes than Hindi movies? For the same reason Hindi films offer a superior fare when compared with regional productions in Telugu, Malyalam or Bengali. Bombay frequently gets its story lines and ideas from Hollywood while the regional films ape the Bombay productions.

WE WILL RUN OUT OF ……. NOTHING

What about the earth's natural resources? Are these not finite? Given the population explosion are we not going to run out of oil, minerals? Are therefore, warnings of impending catastrophe which have been around us for the last two centuries going to come true?

Let us take the earth's energy stocks first. As technology advances, reserves of all kinds of fuels both fossil and non fossil have been increasing and dropping in price. The problem if anything is of growing abundance. Morris Adelman, America's foremost energy expert notes, "The great oil shortage is like the horizon, always receding as one moves towards it."

Jerry Taylor, the director of natural resource studies at the Cato Institute in Washington D.C. observes:

The world has nearly 10 times the amount of proven oil reserves that it had in 1950 and almost twice the known reserves of 1970. In fact, proven oil reserves are greater today than at any other time in recorded history.

Oil prices have dropped 35 percent in constant dollars since 1980. When indexed to U.S. wages, oil prices have dropped 43 percent since 1980 and show steady and continuing decline in price from as far back as 1870. The decline in oil prices has been reflected in the price of gasoline at the pump. Fuel prices in constant dollars are 6 percent lower today than they were in 1972 (just before the OPEC oil embargo), 25 percent lower than in 1963, and 30 percent lower than in 1947. Whereas 3.2 percent of total household expenditures were devoted to gasoline in 1972 (the lowest such rate since 1952). American households today devote but 2.6 percent of total expenditures to gasoline purchases.

Do not believe the government or the Indian Oil Corporation (IOC) when it says we are in danger of running out of oil and therefore conserve it. I will stake my life that this will not

happen. The June 20, 1994 issue of time magazine featured "The Oil resh of '94" as its cover story. The article went on to say –

A wild race is on to the far corners of the earth for new gushers of black gold.

…From the Arctic Circle to China's Tarim Basin to the waters off Vietnam, the end of the cold was has opened immense stretches of oil and gas fields to multinational firms as host countries strive to develop their resources and earn hard currency.

… Yet the demise of the cold was is only part of the story. Countries that were not part of the communist orbit but kept their oil industries under tight national control are also opening their arms to the capital, technology and management skills that international oil firms offer.

… It is here on the steppes of Central Asia (former USSR) that Chevron (a private US Oil company) has staked much of its future and doubled its potential worldwide oil reserves at the stroke of a pen on a contract. Over the next 40 years, the company and the Kazakh government plan to invest $ 20 billion to develop the vast Tengiz field near the Caspian Sea, which contains some of the richest sources of oil and gas on earth." … "says a senior official of the U.S. Department of Energy. 'We're talking about trillions of dollars of revenues from the 30 billion to 60 billion bbls. of oil.'

… Ironically, the great oil chase comes at the very time when a supply glut is depressing petroleum prices. At between $ 14 and $15 per bbl. (for benchmark Arab light as of last week), the cost of crude today is only slightly higher, after adjusting for inflation, than it was just before the 1973 Arab oil embargo, which sent prices spiraling upward.

The tremendous increase in prices of petrol in India is just another example of our government's propensity to tax us to death. The prices in India hardly bear any relationship with the prices prevailing in the international markets.

What about the mineral commodities? In 1980, Julian Simon laid a bet, with arch conservationist and the author of The Population Bomb Paul Ehrlich, of US$ 1,000 that the real price of any group of natural resources of Ehrlich's choice would be less at any given date in the future than in 1980. Ehrlich chose five minerals – copper, chrome, nickel, tin, and tungsten – and set the payoff date for 10 years hence. As Simon expected, the real price of those five resources dropped by 24, 40, 8, 68, and 78 percent, respectively. Ehrlich sent Simon a cheque for US$ 1,000 in 1990.

What about food reserves? What about our ability to feed the growing population? Despite the much publicized government created famines of Africa, the world today is witnessing as unprecedented glut of food in the world markets. Observes Jerry Taylor:

Since 1948 world food production has surpassed population increases by about 1 percent a year. Although global population has doubled since World War II, world grain production has tripled.

The dramatic increase in the availability of foodstuffs occurred without any appreciable global increase in land committed to agricultural uses over the last 30 years. Since 1950, in fact, 200 million acres of U.S. farmland have been retired.

In a welfare statist society where the government has taken upon itself to provide cradle to grave security, it may say that the nation can no longer afford more people. However, the complainer whines about the effects of its own actions and then undertakes to remedy matter by still more intervention. The cure this time seeks to abrogate our fundamental liberties of travel and choosing the number of our children.

It is only when men can move freely that there can be a free movement of capital, goods and technology. Along with other measures India needs to abolish visa restrictions, immigration and emigration procedures and custom duties. There is no case made out for enforcing family planning. These are matters best left to individual choice.

Reginald Maulding, President of the Board of Trade in the British Cabinet, speaking before the Economic Club of New York City on "Trade Policies for a free World".

The free flow of goods and services, of travelers and work, people and capital between one country and another is, in my judgement, the greatest guarantee of the kind of international understanding upon which alone our hopes of peace can securely rest. Moreover, it is only in a world where trade moves freely that the people now living in grinding poverty can hope to see themselves and their successors achieving decent standards of living.

We deal with each other because each expects to gain, and the more trade there is in this world the better off everybody is. Innovations, creativity, discoveries and entrepreneurship, of course, help the innovator, creator, discoverer and entrepreneur in making money or even a fortune, but this fortune is made by fostering the well being of everyone dealing with these persons and more often than not by benefiting the entire world.

Ford made a fortune, but that could not be a fraction of the satisfaction he gave to all car owners. Bill Gates, owner of Microsoft is USA's richest individual. His company is at the leading edge of information and software revolution. He has a personal wealth of US$ 8.2 billion. Two thousand of his employees become millionaires and the world made a quantum leap in productivity, thanks to his innovations in computer operating softwares.

Jerry Taylor asks us as to remember "Not a single material resource has ever been created by nature'... Two hundred years ago petroleum was just a useless ooze that actually drove down property values. Human creative endeavor, knowledge, and technology,

however, turned the ooze into a valuable resource."

Did you even consider sand a resource? Yet, it is this useless, abundant sand that goes into making of silicon computer chips and fiber optic telecommunication devices. These are today leading the world into a far greater 'information revolution' than the 'industrial revolution' which once changed the face of this planet.

Osterfeld observed, "Since resources are a function of human knowledge, and since our stock of knowledge has increased over time, it should come as no surprise that the stock of physical resources has also been expanding."

All of us gain an incredible bonus from the advances in science and technology down the ages. The jets that we travel in are the result of the combined efforts of the "Wright Brothers" and hundreds of thousands of engineers and technicians who followed in their wake.

It is a simple matter of application of the law of averages. The greater the number of people who are born, the greater the chances of another Henry Ford, Einsteain, or Thomas Edison being born and revolutionizing the world.

The greater the number of people who transact freely with each other – the more will be the bonuses of creativity, of men living and dead, to be enjoyed by all of us and by the future generations.

11
CRIME AND VIOLENCE; VICE AND MORALITY

Someone has tabulated that we have put 35 million laws on the books trying to enforce Ten Commandments - Bert Masterton, in the Wall Street Journal

A great many laws in a country, like many physicians, is a sign of malady - Voltaire

Decriminalize and tax drugs to reduce street crime and reduce government violation of individual privacy and rights - Harry Schultz

Laws govern the poor, and rich rule the law. - Goldsmith

The old saying ' ignorance of the law is no excuse' has lost its meaning. The endless stream of rules, regulations, gazette notification and conflicting court decisions emanating daily from the government - together with the complexity of laws on the statute books - makes it impossible for us to know what the laws are. To uncover all offenders, big and small, would require the entire population to police itself. It would simultancously require putting the entire adult population in jail. The law therefore cannot but be selectively applied. The authority, at its discretion, chooses those to be pursued, prosecuted or persecuted - a situation hardly conducive to raising the esteem of law or its enforcers in the eyes of the citizenry.

The increased incidence of crimes is a direct result of statutes which, instead of accepting and exalting voluntary exchange as the bedrock of all progress, turn many of our act featuring voluntary exchange into crimes: be it smuggling, foreign exchange violations, drinking or gambling. By an over-abundance of laws and taxation the entire system is geared towards hindering, obstructing, delaying and raising costs of voluntary exchange.

SMUGGLING

Consider our government's perpetual battle against smuggling. A very effective job has

been done in brainwashing us that there are not many things more anti-national than smugglings, especially gold smuggling. Indian movies reflecting society's beliefs (and to get around the censors) have vilified smuggling as a crime without the necessity of any further justification. I remember, when I was a child going to movies, I cheered - as probably you did too - the victories of Devanand, Amitabh Bachchan, and Jeetendra over the bad guys who usually happened to be smugglers. Now, I know better.

If there is any unanimity among economists, it is on international trade. The benefits flowing from unimpeded movement of goods are now being preached even by some of the former communist regimes. It is against this back-drop that India retains some of the most stringent controls on imports and foreign exchange with a multitude of criminal penalties to punish offenders.

In Guadalajara, Mexico, a brick manufacturer had to buy his drying equipment from a Mexican manufacturer. The restrictions imposed by the Mexican government left him no choice. The drying fans were of a very poor standard and broke down frequently. In desperation, the manufacturer ordered German equipment from across the border in Texas, USA. He smuggled the equipment into Mexico and kept his plant going. Today, the health of sluggish industries, such as the fan manufacturer is no longer bolstered by the Mexican government and the brickmaker can now legally import the equipment he needs.

One of the most specious arguments is that free trade, free flow of capital and free movement of people would be okay if all countries practised them but we have to place restrictions as other countries do the same. In the words of Ronald Reagan this argument is as untenable as is the reasoning for shooting a hole on your side of the boat because another person has shot a hole on his side. It is true that the world would be a better place and far more developed if every country practised free trade. The world is interdependent and whenever restrictions are lifted and freedom takes hold in any part of the world, all of us gain. However, there are no grounds whatsoever for restricting trade by pleading reciprocity.

We do not have to delve into theory, the examples are before us. Hong Kong has less restrictions than other nations with whom it deals, and it prospers. Cuba has more restrictions than most nations and continues exhorting its citizens to make even more sacrifices for the nation. This quote from Elizabeth Pisani and appeared in International herald Tribune of September 26, 1991:

Ordinary Cubans, already living with their backs to the wall, are full of black humour about 'socialism or death' speeches. Long lines form in every city in the country on rumours that a shop will soon be getting milk, bread or cigareties which, along with clothes, gas and most everything else, are rationed. Public transportation outside the capital is more or less

nonexistent for lack of fuel. Newspapers, when available, exhort farmers to use animals and human muscle to save petrol.

Every year, an increasing number of people defy death to leave this prison country in home-made boats to come to America. Not very far, in Miami in the USA, the very same Cubans are a veritable locomotive for the state's economy, being the leading owners of banks and other businesses. It is to businessmen and traders that Havana looks to maintain even its present pitiable state. While businessmen at home are almost totally nonexistent, businessmen from abroad with convertible currencies are being wooed with a red carpet welcome.

In India, we do not need to rebut the argument championing reciprocal restrictions as we have always had more restrictions on trade than almost all of our principal trading partners.

Outright bans and confiscatory taxation on trade have spawned an underworld of smugglers with money and clout, reaching the top echelons of power. Legitimate businessmen and traders cannot participate and it is thugs and gangs who rule the roost. Being outside the law, they have to resort to violence to collect their dues, gun battles to protect their turf, corruption to mitigate the effects of the state power arrayed against them, and if all else fails, to cold blooded murders, assassinations and killings.

Which are the people who would be most successful in carrying out these activities? The most ruthless, vicious and corrupting individuals. People are legitimately afraid of and worried about the activities of these people. The only way to stop this wave to violence and crime is to immediately lift all restrictions on free movement of goods into and within the country. as simple as that. Eliminate trade controls and the menace of smugglers also ends.

Smugglers are but middlemen trying to fulfil our urgent needs whether it be gold, life saving medicines and drugs, liquor, or other consumer items. They are the fall guys, taking the blame for the fault of each one of us, if it be a fault, in creating the demand for all these goods. We fight a totally unnecessary, harmful and losing battle to curb smuggling. The efforts are doomed to failure. A vicious and stringent enforcement of trade bans in face of strong demand merely raises the price of the items in the domestic market. it creates the foundation for failure as the higher degree of risk.

Smuggling is so ubiquitous that it seldom even raises and eyebrow. Almost the entire amount of foreign liquor is smuggled, available easily even on dry days and for regulars delivered at their doorstep. The distribution network works better than the government controlled system for supply of milk. At the right price, at certain places in Delhi and Bombay you can pick up a wide variety of so called banned items whether they be computers, video games, perfumes, designer clothing, cigarettes, chocolates or drugs.

Ingenious and novel methods are found to satisfy our demands. if, before the present liberalisation, gold could not be brought in by carriers using regular airlines then it was brought by speed-boats from Dubai, Singapore or Sri Lanka: by land from Pakistan, Nepal or Bangladesh; or as cargo secreted with legitimate goods. During all this time there were constant attempts, largely successful, to corrupt the law enforcers be they policemen, customs inspectors or politicians.

PROHIBITION

The attempts to enforce prohibition have been equally unsuccessful. Whether in India or the USA people do not give up their habits and their right to do what they want with themselves. In 1920 the USA enforced prohibition. The results were no different from what happens in India when any state bans the manufacture or consumption of liquor.

Prohibition, wherever it might be enacted, leads to gangs and thugs controlling the supply and distribution, and corrupting the enforcers. Tragic deaths result as people drink illicit spirits manufactured clandestinely without regard to quality. Consumption is not curbed.

In the 1920s the mafia spread its tentacles in the USA. Money earned by illegal liquor sale helped it to establish itself in other legal and illegal activities as well. Those were the days made famous by Al Capone and Bugs Moran - the most notorious and ruthlessly efficient suppliers of liquor.

Milton Friedman talks about that era in *Free to Choose:*

Who were their customers? Who bought the liquor they purveyed illegally? Respectable citizens who would never themselves have approved of, or engaged in, the activities that Al Capon and his fellow gangsters made infamous. They simply wanted a drink, In order to have a drink, they had to break the law. Prohibition didn't stop drinking. it did convert a lot of otherwise law-abiding citizens into lawbreakers. It did confer an aura of glamour and excitement to drinking that attracted many young persons. It did suppress many of the disciplinary forces of the market that ordinarily protect the consumer from shoddy, adulterated, and dangerous products. It did corrupt the minions of the law and create a decadent moral climate. It did not stop the consumption of alcohol.

The lessons of history are never learned. Indian states continue to experiment with prohibition - on again, off again, it goes on and on. Sometimes it is Gujarat, sometimes Maharashtra and sometime. Tamil Nadu which restrict or ban liquor.

Whether it is outright bans, restrictions or confiscatory taxation, the burden always falls disproportionately on the poor. The rich will obtain their supplies of Scotch from regular contacts with links to embassies, smugglers, and foreign returnees. The poor have to depend on illicit hooch as they cannot afford the highly priced imported stuff nor the heavily taxed, local factory distilled brands. We have all seen front page newspaper reports of tragedies with hundreds of people taken ill, blinded or even dying after consuming bootlegged liquor.

Cigarettes though not banned are extremely heavily taxed. Tobacco companies are regarded as revenue collectors for the government as the duties are many multiples of the basic price. The better the brand the higher is the tax rate. The burden again falls on the poor. They are forced to smoke bodies or cheap cigarettes without filters which carry a higher health risk and are even more injurious to health.

GAMBLING

In the domain of gambling, the government is the most hypocritical. Betting on horses is okay as long as government gets its cut. Lotteries - the most widespread form of gambling - is not only permitted but enthusiastically encouraged and run by the government itself.

Casinos and card games with stakes are banned. Why? How is one form of gambling okay but not another? Does it become a virtue when the government encourages gambling but a vice when the same thing is done by private parties? How does one rationalize the ban on casinos which may be merely harmful to your bank balance, when smoking, which is deleterious to your health and wallet is permitted?

Laws are no more successful in stopping gambling than in eliminating smuggling or liquor. Laws do manage to push gaming underground, where it is not businessmen paying taxes who exercise control but a whole new mafia. Contracts cannot be enforced or debts collected by legal means and hence physical violence by hired hoodlums is not uncommon.

Matka - a popular form of gambling one numbers - goes on in Bombay, Players include the richest of the rich and the poorest of the poor. The policemen take their cut and wink at the daily infringements. Card games with stakes are played throughout India especially during festival times when almost everyone seems to participate. Betting on horses goes on, somewhere legally and somewhere illegally.

Indians regularly go to nearby Kathmandu in Nepal where the casinos get their business almost entirely from them. Those who can afford it, go farther, to Las Vegas in the USA, Macau or Genting Highlands in Malaysia, where gambling is legitimate. We talk of saving foreign exchange and then force our countrymen to gamble overseas with money

transferred through illegal channels. We could rather be earning dollars from those who would come here, were gaming to be made legal.

Legalized gambling would be a recognition of the reality. It would no more turn everyone into gambler than availability of cigarettes and liquor turns everyone to smoking and drinking. Competition among those offering gaming services would protect the gamblers who would get a better deal with vastly reduced risk of getting cheated.

It would result in the development of huge entertainment, recreation cum gaming resorts and increase employment and income from tourists. Look abroad and you will see this happening.

In the USA the entire economy of the state of Nevada depends upon casinos. Las Vegas in Nevada is "The Gambling Capital of the World." It bears no relation to any ordinary city. This brilliant, showy outburst of neon and glass plumb in the middle of the Mojave Desert is well worth going out of your way to see. Arriving by air at night is a whole show in itself.

It was the adoption of new gambling laws by Nevada in 1931 that made the fortune of Las Vegas. Over twenty million tourists arrive in Las Vegas year after year to try their luck at the casino tables or the famous slot machines. Las Vegas in 1990 was the fastest growing of all American cities. Legal casino operations created a miracle in the middle of the Nevada Desert.

Today, a visitor to Las Vegas finds the best entertainment, the biggest and most spectacular shows, cheap accommodation and food. Las Vegas has also become the attraction for the largest conventions and has more tourists visiting it than many countries. The casino industry has an annual revenue of US$ 5 billion (Rs. 15,000 crore).

While Las Vegas continues to flourish with the opening of new 5,000 room mega hotels cum casinos, it is Atlantic City which has become the new haven for American gamblers. In 1976, when legistators legalized casinos, Atlantic City awoke from a 25 year steep. It now accommodates 30 million visitors every year (India is currently estimating tourist arrivals at 1.3 million) who leave behind US$2.5 billion. Its location only three hours from New York by car has contributed greatly to its prosperity. The casino and hotels draw flocks of package tourists and conventioneers who have completely transformed Atlantic City.

In 1971, Genting Highland casino in Malaysia opened its doors. This casino within motorable distance from Singapore and Kuala Lampur, was immediately successful. The casino company today is one of Malaysia's biggest on the stock exchange. A completely backward and underdeveloped region has become one of the most developed tourist spots in Malaysia.

What has happened in the USA and in Malaysia would be duplicated in India of our government stops preaching morality, Australia, Macau, Monaco, most countries of Europe

and Africa and now even the former USSR permit casino gaming with varying levels of restrictions. India would do well to shed its ineffective, isolationist policies and move in the same direction.

PROSTITUTION

Prostitution may be illegal but the oldest profession continues to flourish in all cities. Its unlawful status pushes it to the worst areas of towns where living conditions are unhygienic and medical facilities scarce, fostering disease and now the dreaded AIDS.

The profession is controlled by the underworld and the police find it easy enough to take their weekly payments and look the other way. Arrest are mutually arranged to enable the police to fulfil their quotas. Those arrested are back to business in days or sometimes in a few hours. Surely it is not for the state to interfere in what goes on behind closed doors between two consenting adults?

Dr. William G. Hill puts it like this.

We feel absolutely nothing should be illegal where there is no victim, except an adult himself who wants to do whatever it is that's illegal. If someone wants to smoke, drink Draino, Gamble, sniff glue or get orgasms by shooting heroin, why should the rest of the public contribute huge taxes to put 15 per cent of the population in jail for offenses that are only a matter of private concern?

Dr. Hill adds:

We do not imply that 15 per cent of the population is currently in jail. But approximately 15 per cent spends some time in jail for victimless crimes in the USA. If all tax evaders, marijuana smokers and cocaine sniffers received a jail sentence, then ove half the US population would certainly be convicted felons. If all sexual victimless crimes were discovered and prosecuted, almost every adult would be legally entitled to spend more of his life in jail than out of it."

Dr. Hill is a passionate non-smoker and says that there is nothing wrong in an airline banning smoking, - 'why should anyone who wants clean air be forced to breathe unhealthy, partially combusted vegetable matter?' Yet he decries the interference of the US government in banning the introduction of an all-smoker commuter airline.

He writes:

Protecting the rights of people who want to be healthy against those who would pollute the environment is one thing. We can go along with that. But, restricting the pleasures of those who hurt no one but themselves is quite another' if nicotine addicted investors, crews, stewards and traveler all decide to voluntarily associate and puff their coffin nails and smelly cigars in a restricted space together, certainly no government should protect them from a carcinogenic haze of their own choosing.

TAXES AND FERA: TERRORISM AND CRIME

Tax laws and the FERA (Foreign Exchange Regulations Act) provide for mandatory jail sentences. All these laws are routinely flouted, frequently with the knowledge and active connivance of the enforcers.

To obey all the tax and FERA laws is impossible except by the rich who have access to a battery of accountants and lawyers. The smaller companies and individuals have neither the time nor the resources necessary to understand all the nuances of the law, let alone find ways of legally minimizing their effects. The rich plan out their taxes. The upcoming companies and individuals bear the brunt of these laws. They find no way out and resort to hiding their wealth and their transactions.

Most of the time the system works quite well. The businessman hides his income, the income tax officer gets his share, through a chartered accountant or a lawyer, and the file is closed after routine questioning. It is extremely complicated to recycle undeclared funds back into business. Hence black money, which should be funding the country's growth, goes into gold, property, conspicuous consumption and secret bank accounts abroad.

Gold is demanded to park black money and as a hedge against government created inflation. The rich buy gold as it is easier to hide than wads of low denomination currency notes. The poor buy it as – unlike land for which large sums of money are required – gold can be purchased with smaller amounts, and is a protection against price rise. Smuggling fulfills this demand and is another product of controls.

Recent times have seen a sharp downtrend in gold smuggling as now each Indian, after a stay abroad of 6 months or more, can bring in 5 kg of gold against payment of duty. What an inefficient way to import. *Has our government gone nuts? Imagine if the government permitted imports of gasoline in this manner only!* Have these gold imports created any calamity? Have they made India run out of foreign exchange? If not, then why, during all the earlier decades were legal imports of gold prohibited? Why did the government preach to us that gold smuggling was amongst the most anti-national of all illegal activities? Why do restrictions on gold and other imports still continue?

Black money, a by-product of tax laws, is sought to be curbed by foolish methods. The government predominantly issues Rs. 100 denomination notes (Rs. 500 notes are scarce) to make it difficult to conceal. Those with black money have hiding places and ways to convert it into real estate, gold and foreign currency.

All of us going about our daily business, suffer incalculable hardship and millions of man days are lost in keeping a track of these 100 rupee notes worth less than US$ 4, a laughably \trivial amount in the international markets.

Singapore issues notes in denomination of S$ 10,000. India would have to issue a note for Rs. 175,000 to match this. While you and I would have to count 1,750 notes of Rs. 100 each. A Singaporean would hand over one note. This matter illustrates the time consuming and unproductive work built into our system. And then we wonder how Singapore has progressed so fast – by not making its people count 1,750 notes where one would do.

No precise assessments are available of the wealth secreted abroad by Indian businessmen and politicians evading the crushing FERA and other regulations. Some estimate it at over US$ 20 billion (Rs. 62,000 crore) while others say it could be as high as US$ 100 billion. When people lose faith in their currency, and become wary of government's desire to take it all away, the inclination is to keep money in a secure place. All of us like to keep our money where we control it and can transfer it where we wish to: therefore, paradoxically, people park their funds in a country which allows free movement of capital.

The most effective measure which can get Indians to bring back their wealth and foreigners to invest is to abolish FERA and remove all currency controls. Every Indian travelling abroad is a potential violator of these laws which cannot be obeyed. Government is inept at managing foreign currency. It always looked for aid, loans and help from abroad until the recent partial liberalization. This experiment of government controls has gone on and on since independence. Is it not time that we recognize the government's complete failure and decriminalize dealings in currency?

Dr. William Hill is frank. "Making it illegal and criminal to have foreign accounts has been tried by every country, but it doesn't work – not any more that making marijuana smoking or sex without marriage illegal. If anything, illegality seems to make the proscribed activity more attractive and glamorous."

Switzerland owes its success (highest per capita income in Europe and unemployment at 1.1 per cent) to the flood of money brought in by people from all over the world. In offering secrecy Switzerland upheld the people's right to enter into a voluntary contract – the banker and the client can mutually decide to protect the client's confidentiality. Switzerland is not the only protector of flight capital. The Isle of Man, Bahamas, Liechtenstein, Cayman Islands and Luxemburg are all popular as safe, tax-free havens. Even Sri Lanka now allows secret bank accounts.

WHY TERRORISM

Terrorism is proliferating not only in India but the world over. Terrorists need a cause and that cause is provided by governments. The seed of terrorism and its subsequent nurturing is the work of well intentioned politicians.

A strong, centralized government enforces its will on the individual states. This plants the seeds of terrorism. It may be enforcement of a language, taxation one place and benefits elsewhere, discretionary allocations of subsidies, arbitrary rules and regulation alien to the state's culture and so on. The nourishment is by poverty perpetuating controls.

Those employed by the government, profit by the rampant corruption and are protected and supported by controls. Those over whom they rule suffer. Unemployment and under-employment increases in a chained economy. People demand autonomy and freedom from this repressive central rule. When denied, some people take to arms and their martyrdom starts a vicious cycle of bloodshed and hatred. A full scale terrorist operation gets going.

Let the government not interfere in the lifestyles of the people. The choice of language should rest solely with the people. In the absence of government schools, the private schools, if they want the students, would choose the medium of instruction most in demand. No one would blame the government for trying to enforce a language on an unwilling populace. The more the government keep out of the lives of the people, the less reasons people find to turn hostile towards it.

Let the ownership of banks, industry and trade remain in private hands. Let us thrive by eliminating controls and taxes. Under these circumstances we would not readily take to arms. People in Hong Kong, Singapore, Japan, Switzerland, Taiwan are not interested in dying for a cause. They are busy, very busy in making money and enjoying the benefits of a capitalist system. There are simply not unemployed people waiting in the wings to take up arms. It is people in India, Sri Lanka, former USSR, Palestine, Yugoslavia, Africa, who are far more likely to have a cause or invent one.

LAWS, LAWS AND MORE LAWS

USA's experience show throwing more money is no solution to combating crime. The system needs a fundamental change. Laws in the USA have multiplied and so have lawyers. USA has more lawyers than the rest of the world put together. It is also the most litigious society on earth. Time of August 12, 1991 reported:

More than anyone else except possibly the French, Americans have been infected by the delusion that strict laws are necessary to protect people from themselves. The USA statute books are crammed with millions of useless and largely unenforceable regulations, like the one in Seattle, Washington, that bars flusufferers from going out in public. Most of the rules are ignored, but their existence is a constant source of inspiration to the puritanically minded.

We might ask, "so what, if these nonsensical laws never get enforced anyway?" The problem: they do get enforced, selectively, by overzealous officials or for political reasons. The same article goes on:

Yes perhaps, out of frustration that serious crime seems to be leaping out of control, some guardians of the law have taken to enforcing these juridical minutiae with singular determination. Consider Cobb County, Georgia, where serious crimes like robbery have increased since 1990. The Wall Street Journal reported last week that Rebecca Anding of Marietta was arrested, handcuffed and forced to spend six hours in jail on Easter Sunday. Anding, who had no previous criminal record, was apprehended picking tulips from an office park to place on her grandmother's grave. Another Marietta resident. Linda judson, spent four hours in jail in May after she was apprehended for failing to return two overdue rental tapes to a local video store.

In the USA and in India as in the rest of the world, income tax is one of the most potent tools to subjugate rivals. Politicians use income tax to punish nonconforming businessmen as well as the press. Raids were carried out against the Indian Express newspaper during Indira Gandhi's regime when the paper refused to be cowed down and kept publishing reports and articles inimical to the government.

Businessmen cultivate friendships with tax authorities to protect themselves and to harass and even eliminate competitors. Income tax officials are empowered to raid premises, carry out searches and seizures, seal bank accounts and lockers, levy penalties and put you in jail. Income tax, the root of all evil, is a mighty weapon in the arsenal of political and business adversaries.

USA: THE DRUG WAR

One of the most notable failures of the US government is in its fight against drugs. Politicians of all hues from the President to the junior officials express their determination to root out this menace. There is about as much chance of winning the war against drugs as there was of stopping consumption of liquor during prohibition days.

Half of all crime in the USA is drug related. Powerful and well connected crime families transport it into the country, disperse and sell it. Gangs fight to protect their territories. Entire streets and neighbourhoods have become unsafe.

Drugs in the USA are illegal and because they are illegal they are expensive. Drugs cost 10 times more than they would were they legal. The extra cost goes toward illegal payoffs to police and to compensate criminals for the risk of lengthy prison terms of dearth in gang related violence.

A single drug addict in New York requires upwards to US$ 40,000 to feed his habit. Guess, what he will do? There is no way he can support his habit other than by muggings, holdups and he would not hesitate to kill someone, if that is what it will take of get his next fix. Drug addicts, in need of cash, are the biggest source of crime in the USA. India, with all its poverty, is a far safer place than the mean streets of New York or other big cities.

It was far easier for George Bush to put together a coalition of over three dozen countries and win a spectacular war in the Middle East than to put together a team to win the war against drugs. Clinton's higher budgets have proved equally ineffective in reducing drug use. The "drug czar", leading the fight against drugs, reports to the President. He uses the street prices of cocaine and other drugs to determine how well the battle is going. A high price indicates that the police successes in intercepting consignments have limited the supply reaching the market. The fight is supposedly going well. Unfortunately, the same set of high prices send a very powerful, though a very different signal, to the drug barons. Take more risks. Profits are higher.

Manuel Noriega may be in jail. The medellin and Cali Cartels in Columbia may have been broken. It does not matter. There are more than enough newcomers to take up the slack. The lure of big money is irresistible.

The free-for-all will go on between the government and the gangsters. Meanwhile, innocent bystanders will continue to get shot. Streets will remain mean and unsafe. The war against drugs in the USA is no more winnable than the fight against smugglers, gamblers or foreign exchange racketeers in our country. In the USA, though still a minority, more and more people are realizing the futility of waging this losing battle, and their cry to legitimize drugs is beginning to be heard.

LAWS, CRIME AND MORALITY

The law far from occupying and ennobling presence in our minds comes out more and more as an ass. When people in going about their daily business have to break the law, then the law is unfair and is disregarded. Society overlooks and encourages transgression. In India the more black money you have, the higher your status. To get caught means that you were unfortunate and elicits sympathy.

Milton Friedman observes in *Tyranny of Status Quo*:

When the law contradicts what most people regard as moral and proper, they will break the law - whether the law is enacted in the name of a noble ideal ...or in the naked interest of one group at the expense of another. Only fear of punishment, not a sense of justice and morality, will lead people to obey the law. When people start to break one set of laws, the lack of respect for the law inevitably spreads to all laws, even those that everyone regards as moral and proper - laws against violence, theft and vandalism.

An action should be termed criminal if and only it - and this is the litmus test - it violates the right of someone. There must be a victim. His rights must have been violated by physical harm, threat of such harm, extortion or coercion.

Crime invokes use of force by the state and may mean your loss of liberty or life. For an action to be criminal there must be a victim - a person harmed, hurt or victimized. Punishing people for victim-less crimes is abhorrent. The real victims here are those on whom the axe of the law falls. They are the ones chosen for sacrifice at the altar of public good. This is an abominable injustice. By penalizing men for victimless crimes we have forfeited the right to be called a civilized society.

When we talk of crime and punishment, it is appropriate to put matters in perspective. The persecuted casualties of today's victimless crimes, those who went to the gulags of Stalin, lost their lives in Hitler's gas chambers, or suffered under the barbaric reign of medieval monarchs, were all victims of the state which has committed the most monstrous of all evils. Remember, when governments demand increased powers to fight crimes.

Ayn Rand puts it thus in Capitalism: The Unknown Ideal:

Criminals are a small minority in any age or country. and the harm they have done to mankind is infinitesimal when compared to the horrors - the bloodshed, the wars, the persecutions, the confiscations, the famines, the enslavements, the wholesale destruction -

perpetrated by mankind's governments. Potentially, a government is the most dangerous threat to man's right: it holds a legal monopoly on the use of physical force against legally disarmed victims. When unlimited and unrestricted by individual rights, a government is man's deadliest enemy. It is not us protection against private actions, but against governmental actions that the Bill of Rights was written.

Victimless crimes come in two categories:

The first is where the state criminalizes our rights to voluntary exchange. Taxes, trade restrictions, gold controls, exchange controls, labour legislation, MRTP, FERA, rent controls, price controls ... are all restrictions abridging our right to liberty and free trade. They harm us all. They are immoral. These so called crimes involve no victims.

In the USA people fleeing tyranny and yearning freedom first recognized the right the liberty and free trade. The last 50 years, from the end of World War II saw America's share of the world trade fall from 65 per cent to 25 and as expected coincided with a pitiable erosion of these rights. To win a war against a small underdeveloped Iraq, it had to collect funds from a dozen other nations. Threat to the USA comes not from without but from within - from meaningless, flawed laws and the tax and spend policies of the present day government.

The other category is where the state goes crusading and decides to guard our morals. It fails because from the time of Adam and Eve men have desired the forbidden fruit. I was an inveterate gambler until I began to run a casino, then, as I could gamble freely, I no longer wanted to and stopped. Vices such as gambling, drinking, smoking, prostitution etc., must be distinguished, not confused or equated with crime. These activities may well be injurious to your physical or mental health or bank account but the price of freedom demands that you and only you are responsible for your personal actions and decisions.

If you with to indulge in vice do so. Your family, friends and other well wishers may reason with you, use persuasion but ultimately you are the arbiter of your own actions.

No one has the right to enforce his views on others. Voltaire is credited with saying: "I disapprove of what you say but I will defend to death your right to say it." I may not like what you are doing but the right to decide must be yours. The state always advocates protection of the minorities as its much vaunted goal. The tiniest minority is the individual. Protect him from the veritable army of do-gooders.

Government in criminalizing free trade and vice causes much that ails the world. Its actions are boomed to failure. And yet, even if it were possible to enforce these laws, they would still be morally indefensible. People will recognize the state's role of an intruder in their personal lives, and decry it. To redeem our civilization, we must give freedom of choice the godlike status it deserves.

Perhaps when and if all these tyrannical statutes are removed from our law books, the justice system which is clogged with persecutions and victim creation will start to do its job. perhaps then it will offer solace to the real victims and minimize real crimes (murder, extortion, theft...) and catch real criminals. Perhaps the world will be a safer place then. Until that time as someone once said: "the world will abound with laws and teem with crime."

12
PUBLIC PROPERTY AND COMMON INTEREST: AN ABSURD NOTION

By selling off most of its land, buildings and businesses, government would be in position to pay off the entire national debt and probably have billions of dollars left over to rebate to citizens. As a bonus, the absurd notion of "public property" would cease to exist, which would eliminate whole areas of argument that would never even arise if there were no such thing as a "public place".

Robert J. Ringer

It is the fruits of trade and manufacture that raise us from the wearying muck of subsistence and give us the health, wealth, education, leisure and warm, dry rooms with Xerox machines that allow us to be the ecology-conscious, selfless, committed, splendid individuals we are.

P. J O'Rourke

The government today owns most of our wealth. Through outright expropriation - euphemistically called nationalization - and taxation, it holds and operates factories, industries, hotels, mines, oil welts, insurance companies, radio and television, ports, export and import companies, airlines, airports and trading companies. The central public sector companies are in excess of 240 commercial enterprises. This is in addition to departmentally run undertakings which comprise railways, banks, financial institutions, and the post and telecommunications. Further, the state governments have shown an increasing inclination to get into business.

The mortally debilitating consequences of the government's continuing to run these public sector enterprises have been seen. The government's avarice, when it comes to ownership does not end there. It holds vast tracts of undeveloped land, forests, skies, coastlines, offshore waters, all of it being termed common property to be held for public good and to be enjoyed by all of us.

Public sector, common or public property, public good, public interest, what do these find words mean? Governments are past masters of inversion: confiscation and theft is termed *nationalization* in the name of public welfare. In the erstwhile East Germany of GDR (German Democratic Republic) - that brutal communist dictatorship had the word

democratic in its name - it became a joke that any country which has democratic in its name is totalitarian dictatorship. To fight a war in Sri Lanka, India sent a peace keeping force. Ever wonder how all those wars start when countries have only Ministries of Defence, none have a Ministry of Offence.

Whenever the good or welfare of public in invoked, rest assured the good will be of some politician or bureaucrat, never of you or I. Whenever politicians talk of public ownership, certainly you or I will never own or control those assets or enterprises. Guess who gets to control and benefit?

When you buy gasoline at the highest price in the world, do you feel you own the Indian Oil Corporation? When you cannot get through to the telephone number you want or to the assist-operator who refuses to pick up the phone, do you consider yourself as an owner of the Mahanagar Telephone Nigam Ltd? When you are sweltering in the Delhi heat without any electricity due to the ubiquitous load shedding which seems to get worse during the summer months, your blood pressure mounting with every degree rise in the temperature and you have no information regarding restoration of power supply, do you feel pride in the ownership of the National Thermal Power Corporation and the State Electricity Board?

Perhaps you do feel the satisfaction of ownership at the time of the annual budget, when the finance minister decrees that you will part with more of your income for funding these great enterprises - after all they are yours, Somehow though, the sacrifice doesn't sound very thrilling.

Public interest or public good means an organized aggregate of people, participating in advantage, profit and responsibility. It would be preposterous to suggest that the 800 million people of India have any title to, or obtain any benefit from, or possess any interest in the enterprises run by and the property owned by the government.

You and I have no authority to take any decisions in running these enterprises nor any responsibility of doing so. The only act of ownership called upon us is to pay taxes for feeding these public interest shenanigans, Clearly we can do without such privileges.

Owning property is a birth right in which people - even the poorest - take pride. Even communism was never able to wipe out the concept of private property. Writing in the *International Herald Tribune* of October 31, 1991, Adam Horchschild said:

I think most Russians are so estranged from anything that smacks of public life that any public space, even so close by as an apartment building's hallway, seems alien, beyond their influence, During 74 years of communism the private sphere became a refuge from public rhetoric that rang cynical and false.

Who cares about public (government) property? It surely is time to put an end to this charade of public interest. There is no such thing as public property other than in the make-believe world the politicians and the government invent for us. We cannot own, use, dispose of, or profit from public property. It is just a ruse for the ruling regimes to exercise control over valuable and scarce assets.

The doctrine of public interest does not serve the public; but it certainly serves the clique of politicians and bureaucrats, enhancing their almost limitless sway over us.

Government forays into business are out-and-out catastrophes. How has the government fared in furthering our interests by holding public property - forests, coastlines, offshore and onshore drilling oil rights, the environment, undeveloped lands? Equally dismally.

Tradition and precedent make us accept, without a second thought, that there is nothing wrong in the government owning our forests, wildlife reserves, beaches and the like. Most of us cannot visualize any other form of ownership of these natural treasures. And yet, we know that government should be the last to hold anything of value: the more valuable the resource the more it is necessary for it to be privately held.

The development and usage of gifts of nature depends on how men add value to it. Iron, gold, aluminium, oil, ...have always existed. It is the brains of men not government which converted these into cars, jewellery, aeroplanes, houses, gasoline... Government steps in to control and own after uses discovered by men of genius. To say that men should not hold natural resources but government should, is a negation of all progress made by mankind.

FOREST AND GREENARY

The depletion of our forests is alarming. Conservationists worldwide are clamouring for stricter controls for preserving wetlands, rainforests, rare flora and fauna. The problem stems from absence of property rights. What is required is not further government intervention - governments already own these land - but a legal framework of private property rights.

We have a system based on conflict and corruption. Forest inspectors are in charge of preserving out jungles. The right to fell trees is restricted and requires state approval. It pays an individual to act in cahoots with government inspectors and steal trees for timber - the profit is shared.

To conserve and preserve, turnover all lands including forests to private hands. Your initial response may well be - ah, he is advocating the destruction of our woods and natural beauty. No. Let us see why not.

If you own a 100 acres of forest land would you chop all the trees? you might if you are pressed for funds or find other more lucrative investment opportunities. However, if everyone else did the same - the prices of timber would fall precipitously and halt further felling. Many people would wisely wait for prices to be more reasonable.

The price mechanism as usual serves an invaluable purpose. The constantly verying prices of chopped wood or timber, equating demand with supply, transmit a message to cut, preserve or to plant more trees.

Private enterprise would see to it that our forest lands are preserved. Felling and planting of trees would be at a pace guided by the objectivity of market forces not at the whims of bureaucratic authority. We, as owners of these lands, would see to it that our estates do not dwindle but keep increasing in value. We would plant more trees than we cut.

It may appear to be pure luck whether an owner would benefit by felling trees now or by waiting. Human ingenuity, long ago, found an answer by inventing the futures market. The risk of fluctuations is absorbed by speculators and others who with to undertake such risks. An owner of forest property contracts not only for supply of timber now but could also sell his planned future output. An over abundance of supply would depress the current prices and an owner would gain by contracting to sell later via the futures market. Current market prices compared with those prevailing in the futures market would guide him. It will signal to him whether he should wait or cut trees now.

Futures markets iron out sharp variations in prices. The uncertainty about future prices is passed on to those willing to take the risks. The producer is left free to plan his output without fear of adverse price fluctuations. The producer knows his revenue earnings in advance. Decrease in prices will not affect his bottomline nor will increased prices benefit him.

Such markets already exist for, stocks and shares; precious metals like gold, silver and copper; commodities like cocoa, coffee, rubber; foreign currencies for example the US dollar, yen ... No doubt a thriving market would develop in timber and other forest products if private rights are recognized. (It is again the shortsightedness of government which has sought to restrict and sometimes ever eliminate this miraculously ingenious market activity by equating it with gambling.)

Would private developers not clear the forests to build hotels and houses, destroying our flora and fauna. We have to ask who's right are we talking about?

There is no such thing as common good and public interest. People who want houses, people who would like to stay in hotels, people who want to risk their capital and develop these projects are as much members of the public as those who like greenery, trees and may like to cover the whole world with spotted owls and forest. Government intervention

creates the problem. its arbitrary rules and regulations sway from one side to the other depending on where the political clout lies.

The solution is best left to market forces. If is woodlands and greenery people want, be it in the middle of a city, that is what they would pay for and that is what the developers would give them.

Ecologists and conservationists are biased towards the rich. If in a city, land is to be left for greenery and trees, land for housing is reduced making it more expensive. it is then only the rich who can afford such property.

Natural forest lands are safe in private hands. The mortal danger is due to government ownership. We regard forest products as valuable. We also regard forests as places to go for rest and recreation or on safaris. As long as forests are treasured, there will be people who will preserve them - not for us but for their own benefits. Adam Smith's invisible hand (price mechanism) which guides businessmen, will guide them equally well.

POACHING, WILDLIFE AND PARKS

Poaching - as with illicit felling of government trees - is the result of public ownership. Private owners are much more careful and successful in preserving and enhancing the value of their property than governments are.

If you want to save the tigers, elephants or rare species of birds, let the ownership rest in private hands. So long as the state owns wildlife reserves –

-these will always be poachers acting in consort with state servants corrupted by the lure of an extra buck; and

-attention and care required for keeping rare species alive, and for preserving and enhancing wildlife will always fall short of what private enterprise can do.

Elephants in Africa are in danger of becoming extinct due to the greed for ivory. During the past two decades poachers have killed 95 per cent of Africa's black rhinoceroses and half of its 1.3 million elephants. The following is quoted from an advertisement inserted in Time of October 21, 1991 by the African Wildlife Foundation. "Over 80 percent of the ivory today is poached, and any ivory you buy fuels the demand for more killing. At the present rate of slaughter, the African elephant will be virtually extinct in six years."

This is the direct result of absence of private ownership. If the government had recognised and enforced private property rights - the elephant herds would still be alive. Ivory would have come to the world markets but it would have been far more profitable for private owners to call the ivory from elephants temporarily stunned. A tusker if alive is worth more. The wanton killings of the past were the direct consequence of the 'public' owning the elephants. What is owned by everyone is owned by none.

Private enterprise would have seen the emergence of a vastly better tourism market in Africa. Many times more people would have visited privately developed safari parks.

Markand Delia Owens, a couple famous for their 1984 bestseller Cr of *the Kalahari* spent two decades fighting a valiant battle with corrupt regimes to preserve wildlife. They were expelled from Botswana for criticizing the government's treatment of water starved wild beasts. Their plan in Zambia was to drive out the poachers while developing tourism to boost Zambian economy. That way animals would be worth more alive than dead. Safaris have been started by private tour operators and for the first time poaching is on the decline. All this would be so much easier and vastly more successful if development and property rights were privately possessed.

It is not known what we may have gained from private wildlife safaris and private forest development. Fortunately private parks in the USA do provide some clues.

For any first time visitor to the USA, a trip to one of the Disney theme parks is an inviolable commitment. Every year 13.3 million people visit the fantasy world created by Walt Disney in Orlando alone.

Do you know what impressed me most about Disneyland? No, it wasn't the millions of people contributing millions of dollars to this profitable, private enterprise. It was the cleanliness. In that huge fantasy world, you could eat off the pavement, Compare it against the garbage, graffiti, stench and filth of government owned railway stations, but depots and slums on public lands in India.

Writing about Disneyland, Time of May 27, 1991 says that "as a shrine, it is surpassed only by Kyoto, Mecca and the Vatican". Contrast this not with the parks run by the Indian government - any such comparison would be a joke - but with India itself. In 1990 India received 1.3 million visitors, i.e. less than 10 per cent of the number which visited one of Walt Disney's theme parks in the same year.

What better testimony to the unmatched superiority of private enterprise than your vote with dollars, willingly paid to enter the fantasy park.

There are many other examples in the USA. The Sea World in San Diego is a mammoth 135 acre marine-life theme park. This boasts of 6,000 sea animals-seals, walruses, dolphins, whales. There is a Japanese fishing village; a 100,000 litre water aquarium for sharks, a 100

metre skytower, children coming here would take away in a day, memories to last a lifetime. After seeing the dancing dolphins and the quaint antics of Shamu - the whale - they are much more likely to appreciate marine life than by hearing government propaganda on environment.

Nature is best served by private rights. Most people would be glad to see government moving out of business. They should be equally happy to remove government's ownership of natural property.

THE BREACHES AND COASTAL AREAS

Our government dictates that beaches are public property to be enjoyed by all. Private ownership of land upto a 100 yards from the sea-shore is not allowed.

The results are the reverse of what is intended. Beaches which are to be enjoyed by all are enjoyed by none. *It is men who add value to natural gifts.* The most scenic view in the world cannot be enjoyed unless the place is kept clean accessible and maintained - all these requirements can only be fulfilled by private enterprise.

The beauty of our beaches will be enhanced by proper development. Sunshades, hotels, restaurants are all required for us to appreciate our coast-line. The incredible squalor and filth on some of our beaches in Goa is the outcome of absence of private rights.

People may well build houses on the beach and not allow others to trespass. But many developers would also build roads and other amenities enabling us to cherish the scenic beauty of our long coast-line.

the Seventeen-Mile Drive in California is one the USA's most scenic roads. This drive, visited by over one and a half million people every year, features dream private houses and the privately developed world famous Pebble. Beach golf course. Everyone cannot own houses here but people gladly pay for driving through this place of incredible scenic beauty.

Private enterprise could have given us many such drives in India but the government does not even let hotels have their own ocean fronts. The state cannot develop these dormant assets into active tourist-pulling attractions and it will not let private enterprise do the job.

THE OCEANS

We may not know how much wealth the oceans possess. We do know, however, that government is not competent to exploit this wealth. Private enterprise alone can best explore and take advantage of the richness of the oceans.

The proper task of government is to recognize private rights and protect them. The government, instead, prohibits private rights to offshore wealth and uses the same gruesome concept of public good to arrogate to itself the rights of exploiting (or not exploiting) this resource.

There is no difference between development of mineral resources onshore or offshore. It is man who mixes his capital and labour and transforms these resources into valuable products for use by us all.

The USA possessed vast amounts of undeveloped land. the government promulgated the Homestead Act of 1862. Property rights were recognized and a person who cultivated a piece of land for period of live years was granted title which he could legally transfer or dispose of as he chose to. The government did not act as the owner of land but merely took measures to affix property rights.

We are past the stage of private enterprise experimenting with offshore exploration. What is required now is an immediate auction of the entire exploration rights to the highest bidders. The property would soon find its way into hands of those who can best use it.

Today, the technology may not exist to profitably exploit deep-sea wealth. Here the situation is ripe for application of law based on the Homestead Act. Any enterprise which first develops and brings to use the untapped oceanic resources should automatically gain ownership rights. This is the law which in the USA turned a desolate undeveloped country into the thriving civilization of today. This is what is needed for realizing the potential of the oceans for the benefit of all.

Depletion of fishing stock from the world oceans is causing increasing alarm; countries fight over it. The Economist of March 19-25, 1994 called it "The tragedy of the Oceans" and featured it as its cover story. The Maldives and Sri Lanka; Japan and the USA; certain European nations all have disagreements over fishing rights. The fishing industry itself is dissatisfied with the understanding arrived at by their respective governments. All this I may repeat - at the risk of sounding monotonous - is due to tack of recognition of private fishing rights. If fishing rights could be bought and sold, the world's fishing stock would be in to danger.

The whales and dolphins would not face extinction, nor would entire areas be stripped off marine life, and disputes between governments would be avoided. Today, a fishing company has no incentive to develop marine life. As it does not possess any exclusive rights,

it has all the stimulus to destroy - after all if it does not catch the fish first, someone else will. True, there will be fewer fish next year, the cost, however, will not be borne by it alone but spread over the entire fishing fleet.

How long do you think fruits would last in an orchard, tend the trees, nature them if - when the fruits came - they belonged to whoever plucked them first. The situation facing the oceans is identical. We have no option but to recognize private rights. The sooner it is done the sooner will the anarchy destroying the fishing industry be eliminated.

THE ENVIORNMENT

An agreement was reached in 1990 between a group of nations not to develop Antarctica for a period of 50 years, i.e. up to the year 2040. The USA initially objected vehemently. Then under heavy pressure from environmental groups at home and abroad, it succumbed and signed. The environmentalists quickly hailed their victory and this entire continent now being "safe" for the next 50 years, turned their attention to other worthy causes.

Fifty years! It may not sound like much compared to the life of our planet but in these days of continuous technological advances this time easily represents greater potential for progress than the entire period of recorded history. The speeding up of growth is only too vivid before us. First it was the radio then the gramophone and much later television nd then in spitfire progression came the FM Channels, colour TVs, LP records, cassette decks, VCR, compact discs and lasers. Time virtually has accelerated.

And for what has this potential been lost? To protect the habitat of penguins? how many of us are ever likely to go there and witness its virgin scenic splendour? Yet, many more might indeed have visited if such an abhorrent agreement had not been signed.

Fred L. Smith Jr., and Kent Jeffreys observed in their work A *Free-Market Environmental Vision:*

In each case, the concern is not so much for the present as it is for some indeterminate future. Because it is extremely difficult to refute vague assertions of far-off disaster, new panics can be manufactured much faster than old one can be laid to rest. The result is a layer cake of half-baked state policies made according to a market-socialist recipe.

Popular myths are perpetuated by many who know better, and free-market environmentalists must continue to rebut those science fiction scenarios.

Smith and Jeffreys add:

First and foremost, Congress and the new administration should begin to restore private property rights in and to environmental resources. Critical ecological amenities should be removed from public hands and conserved through private stewardship arrangements. The details will vary among, and even within, resources. For example, one end of a coral reef might be managed by recreational fishermen while another portion may be managed by diving club. Particular stretches of rivers might be leased to fishing clubs while tracts of forest could be owned by hiking, hunting, or camping organizations. Any harm to the rivers or forests from external forces could be dealt with through contractual obligations and, if necessary, tort law.

In India we hear that we cannot take care of the environment as much as the first world since our top priority is development. The supposition; development is anti-environment. This present-day logic would be used 10 years hence to block, obstruct and halt development.

Development is necessary, not despite the damage it does to the environment but because it is by far the best protector of environment. Persons eking out a miserable existence in the filth and squalor of India's city slums with their children rummaging through garbage for scraps of food, are hardly likely to possess any "environment". The villagers carrying out back-breaking labour depending solely on muscle and perhaps animal power, having no access to electricity or safe drinking water - what kind of environment do you think they live in? Wouldn't it be infinitely preferable to endure emissions of car exhausts in Los Angeles to living in this pitiable state not too-much better than that of farm animals.

The biggest killer of human beings is not cigarette smoke, automobile accidents, cancer, AIDS or heart attacks but poverty. Poverty leads to people in our country living on average 20 years less than those in first world.

Yes, private industry does pollute the environment. There is no denying it. there is also no denying that governments cannot provide the solution. Industries run by government pollute equally if not more.

In a cover story, Time of April 29, 1991, dwelt on the horrendous pollution in communist China citing the coal and steel centre in northeastern Liaoning province as the most polluted in China and among the world's worst. It added: "Year in and year out, 80 per

cent of the country's 36.8 billion tons of industrial wastewater and domestic sewage is dumped untreated into rivers and lakes... Most factories are state owned. By fining the enterprises the state is literally fining itself. So, of course, nothing changes".

People are just learning of the incredible environmental damage caused during the time of the communist regime in the former East Germany. The pollution there is far worse than in any western nation. it would take many years and all the resources and technical skills of West Germany to mitigate the havoc caused by the government in the East.

In New Delhi the government owned Inderprastha power station, smack in the middle of the city, belches out black fumes day in and day out. The same government blocked the movement of hazardous, polluting industries from crowded urban areas to safer areas - DCM Ltd is only one case in point. Were it not for government, industry owners would immediately shift their polluting industries to remote regions and profit by selling valuable land in city centres for commercial and residential use.

Whether enterprises are run by governments or private owners accidents do occur. The Bhopal tragedy at Union Carbide did take place. The law and government inspectors could not prevent it. The approval of inspectors contributed to the accident by lulling the management into a false complacency. Private company owners face ruin from such accidents and are likely to be far more careful than governments which have merely to dip into public pockets. The compensation of $450 million negotiated with Union Carbide (USA) is way beyond the capacity of an Indian company to pay, and did put a heavy burden on the parent company.

Money cannot recompense the loss of human life and the misery and anguish caused by Union Carbide. However, contrast this payment averaging Rs. 125,000 per affected person with the Rs. 10,000 which is routinely announced for the next of kin of those killed in government railway or coal mine accidents.

Recall the April 1986 Chernobyl cataclysm in Kiev, Ukraine in the former USSR. Eight years later (AFP) report appeared in *The Kathmandu Post* of July 6, 1994:

A new wave of cancers caused by radiation will strike hundreds of thousands of 'liquidators' who fought the nuclear disaster at Chernobyl with no protection ...

... Some 170,000 technical experts and emergency workers received massive does of radiation...

... It was by far the worst civilian nuclear catastrophe on record, contaminating large areas of northern, central and western Europe and irradiating and estimated 800,000 people.

... the real death toll has been put at between 6,000 and 8,000 ...

... 10,000 of the group's members had officially been declared invalids ...

... In 1993 we had a record number of invalidity cases...

... According to studies carried out abroad and in Russia, a new wave of cancers and blood ailments can be expected to strike victims within the next five years...

Another nuclear accident in the 1950s in the Soviet Union, was far worse than Chernobyl. It was hushed up then, by Stalin. Close your eyes and recreate the pictures of the burning Kuwaiti oil wells. That too was the action of governments. is far greater, severe and more extensive than done by private enterprise.

Capitalism gets the blame for pollution. It is a bum rap. Compared to China, former USSR, former east bloc countries, North Korea and Cuba, capitalism created a paradise, a workers paradise and an environmental paradise.

Let us reflect on nature and causes of industrial pollution. It is we who cause pollution. When we demand power, cars, clothes, travel we simultaneously demand pollution. making factories pollution free and making car exhausts free from polluting fumes, costs money. Are we willing to pay an extra Rs. 5,000, Rs. 10,000, Rs. 50,000 for the privilege of breathing air which is now 10 per cent less polluted?

The *International herald Tribune* of November 28, 1991, carried an article headlined "US Clean Air Bid Spells Costlier Gas" and pointed out that "the six cents a gallon spent on cleaner gasoline will bring the cost of removing an extra ton of hydrocarbons from the air to about $ 10,000 - roughly ten times the per-ton cost of removing the first 95 per cent from urban air... Unless the law is modified, gasoline will have to be reformulated again in the year 2000 at a cost of about 15 cents a gallon."

Smith and Jeffreys say in *Environmental Vision*: "Recently, a federal court declared that the fuel efficiency requirement for automobiles was directly related to increased highway injuries and fatalities because it resulted in the production of smaller, lighter vehicles that are inherently less safe than larger, heavier models. In such situations, individuals have a paramount right to make critical personal choices for themselves and their families." Heavy handed government intervention, taking over factories, and signing 50 years non development treaties is not the solution.

It does not mean that we have no recourse when environmental damage results from private actions. Objectively defined laws and allowing heavy damages where injury to third parties is proved are effective. In the USA, the cost of cleaning up plus penalties to Exxon for the Valdez oil spill in Alaska was well over US$ 1 billion (Rs. 3,100 crore). Such damages

serve as sufficient deterrent to private enterprise. After all they are guided by 'greed and profit'.

Smith and Jeffreys observe:

We have seen that pollution is not a failure of markets but a failure of government to permit private individuals to protect the property and persons against trespass. Free-market environmentalism offers a solution to the problem.

PART THREE

THE BLOODLESS REVOLUTION

CAPITALISM: IF INDIA IS TO HAVE A TOMORROW

13
WHY GOVERNMENTS FAIL

When one is in office one has no idea how damnable things can feel to the ordinary rank and file of the public - Sir Winston Churchill

Government isn't the solution, government is the problem - old slogan of the Liberatarian Party of the USA

Feeling good about government is like looking on the bright side of any catastrophe. When you quit looking on the bright side, the catastrophe is still there - P.J. O' Rourke

Why do governments perform poorly? Why do government actions have consequences which are the opposite of the intended objectives? Why are government forays into business abysmal failures? Why is the government record pathetic in controlling crime or terrorism? Why when the government administers justice, the horrendous delays negate the concept of justice? Why are government budgets perpetually in deficit and countries eternally in debt? Why are governments constantly looking for increased revenues and forever increasing taxes? Why are government actions hallmarks of ineptitude and inefficiency? Why is corruption endemic? ... Why?

Are the people we choose to run the government unsuitable? Would change in our politicians or bureaucrats make a difference? Should the Prime Minister or the President or the ministers or all of them be changed? Would the functioning of our government be any better if the opposition came to power? Would the businesses run by the government show an improvement if they were granted more freedom, if they were make more accountable or the employees were paid higher salaries? Should the laws, regulations or rules be amended...?

The answer does not lie in changing our politicians - many are corrupt and unsuitable but there are also those who are honest and honourable. The politicians are chosen from among us and by us. They have to go through tough preliminaries before they can become members of parliament, let alone ministers or PMs. Many of our ministers may have performed well in business has they chosen that vocation. Politicians do possess debating and oratory skills which are higher than are average. Gandhi, Nehru and others did possess extraordinary charisma and leadership qualities.

The answer does not lie in appointing new bureaucrats. Some may well have got in due to their connections or caste or... but most have undergone an exacting selection procedure. It is doubtful whether we can improve the quality of our officials and if we could, it would not help us. Highly efficient regulators would think of even more obstructive regulations to hamper businessmen.

The answer does not lie in changing our lows. Enhancing penalties for corruptions, smuggling or blackmarketing would not make life easier for the common man. With a more rigid system, people would find it vastly more difficult to go shout their daily work, or obtain their everyday necessities. In Iraq, frequent hangings of 'black marketeers' do not eliminate shortages. Goods available at exorbitant prices simply become unavailable at any price.

China regularly executes corrupt officials. An AFP news item reported in *The Kathmandu Post* of July 6, 1994:

China has executed two high-ranking officials from companies attached to central government agencies ...

... Guo, 52, was sentenced to death and shot in the neck for taking bribes worth 468,000 yuan (54,000 dollars) while he was general manager of the China Coal Marketing and Transportation Co.

... Hu, a 38-year-old department director with the Fujian Agricultural Comprehensive Development and Investment Co, was also executed for taking bribes totalling 1,368 million yuan ...

... It was the fifth time the Supreme Court has upheld death penalties for bribetakers since August ...

... More than 15,000 party and government officials were disciplined for corruption in the first quarter of 1994, according to official reports.

The report concluded:

However, numerous anti-corruption campaigns in the post have failed to have any lasting impact, and the government has acknowledged that corruption is now worse than at any time since the communists came to power in 1949.

The answer does not lie in appointing professional managers to run government undertakings, granting them autonomy or increased remuneration. We have already

experimented over five decades with different managers - many of them competent and yet the failures have been universal.

The answers lie elsewhere.

Governments have grown too big to be manageable. Even the smallest government is too big to be run efficiently. The communist regime of tiny Cuba manages in a manner where its people prefer braving death in home made boats to cross the straits of Florida to get to the USA. Can we expect any better from control-oriented governments of bigger countries?

The head of the government in India is the PM. He is responsible for how the nation fares. He may delegate authority to his ministers but the responsibility still remains with him. He is answerable to the people at election time and has to see that his party remains in power. Let us look at some of the obligations placed on him.

NATIONAL DEFENCE

He has to watch what our neighbours are doing. What is Pakistan spending its defence rupees on - Is it missiles, F-16s or nuclear weapons? They army, navy and air force are to be kept prepared at all time.

TERRORISM AND CRIME

Kashmir is passing through strife and turmoil, Problems in Punjab are not over. Kidnappings in the capital are the order of the day. The Bombay bombers are still at large and probably in a foreign country. These matters also require his undivided attention.

THE JUSTICE SYSTEM

The courts have to be provided with funds and a system of justice maintained to resolve dispute between private individuals.

FOREIGN AFFAIRS

His government has to have a command over dealings with other countries. There are state visits to be made. Narsimha Rao's visit to the USA in mid 1994 aroused such ire from the opposition that the entire government seemed to work to give it an aura of success. Visiting Heads of State and other dignitaries have to be met. There are over a hundred and fifty countries and territories - mercifully not all of equal importance - with which our nation has to be concerned.

GOVERNMENT UNDERTAKINGS AND PUBLIC SECTOR

He and his government have to provide a direction to, and are accountable for,

departmentally run undertaking employing millions:

Railways - 1.8 million

Posts - 0.6 million

Telecommunication - 0.4 million

The others including

Nationalized Banks and Financial Institutions - 1.0 million

The central government also owns 244 other commercial enterprises employing a further 2.3 million people.

FINANCE, RESERVE BANK OF INDIA AND TAX ORGANISATION

The government must fund its myriad activities. It owns and supervises the Reserve Bank and employs staff which collects direct taxes, customs, excise, and other levies. The government also prints notes to fund its deficits and resorts to borrowing on a grand scale.

CENTRE-STATE RELATIONS

The Prime Minister exercises control over the various states by maintaining and imperial presence there, with governors occupying the Raj Bhawans. The state governments in turn have their own Bhavans in New Delhi where Chief Ministers periodically descend. The states continuously lobby the Centre and the PM for bigger share in the central loot, acquired by taxing us and printing notes.

UNION TERRITORIES AND CENTRALLY ADMINISTERED

The government directly manages Goa, Daman and Diu, Chandigarh, Andaman and Nicobar Islands. It also rules over states like Jammu and Kashmir, where elections have not been held.

THE VARIOUS MINISTRIES

These include:

Agriculture though agriculture is a state subject.

Planning for planning poverty.

Human Resources Development seems to have been especially set up to provide someone with a ministry.

Information and Broadcasting for brainwashing us.

Transportation look at the condition of our roads.

Health our life expectancy is a couple of decades less than in the west.

Science with no notable achievements.

And many, many more. In addition to the transportation ministry there are ministries of civil aviation and shipping. There is a ministry of industry and separate ministries for trade and commerce, steel, textiles and for chemicals and fertilizers.

THE BUREAUCRACY

The centre has its claws in every facet of our life. The PM and the government has a bureaucracy over a million strong, to secure its control over us. It includes chief secretaries, additional secretaries, joint secretaries, under secretaries, secretaries to secretaries and... there is also he Central Statistical Organization, the Monopolies Commission, Securities and Exchange Board, Chief Controller of Imports and Exports, Director General of Technical Development, Central Board of Direct Taxes, Company Law Board, Directorate of Advertising and Visual Publicity...

THE PARLIAMENT

The PM and his ministers have to fulfill their parliamentary obligation, answer queries and face the opposition.

THE PARTY ORGANIZATION AND ELEDTIONS

The PM or his appointee, usually heads the party organization. The organization's health is crucial to secure a majority at elections. The PM must nurse his constituency, to get elected again, in addition to campaigning nationwide for his party.

CEREMONIAL FUNCTION AND PROFILE

The PM maintains visibility through press, radio and TV attends seminars and meetings, lays foundation stones, gives speeches and performs an endless stream of other functions. To be out of sight is to be out of mind and no PM can ever let his voters forget him.

It is not that our PM is incompetent and cannot carry out all these tasks. It is simply impossible for any person to perform all these functions, let alone perform them with efficiency. Replacing the PM will not help. replacing the ministers and bureaucrats will not

help. Tinkering with reforms and making piece-meal changes will not help. The government is simply too big to be managed.

Any chief executive of a company, be it in the private, or public sector will tell you that his is a full time job. J. R. D. Tata when he was the head of Air India left all his other enterprises and concentrated on managing the airline.

There is talk of improving the public sector by removing political interference and granting autonomy i.e. run government companies as private companies. This is a contradiction. If the public sector is to function as the private sector and provide a return on investment, then why have it at all? The money which goes to fund a government company is ours. Should we then not make the managers accountable to us? The only way to do this - other than making them answerable to us? The only way to do this - other than making them answerable to all 900 million of us, clearly an impossible task - is through our elected representatives but that turns it into political interference.

Lessons derived from the best run companies in the world (Refer to In Search of Excellence - Lessons from America's best run companies y Thomas J. Peters and Robert H. Waterman It.) tell us how companies which have flourished have followed certain common policies. Let us contrast that with how the government functions.

Number of Objectives - The best run companies have very few objectives, seldom more than two or three. This is to ensure that everybody in the company fully understands the goals for which to strive.

The government has plethora of often contradictory objectives:

(a) Public enterprises be efficient and provide a return. Select half the people by caste, race or other meaningless criteria - anything but ability to manage efficiently.

(b) Keep inflation down. Print more notes.

(c) Increase employment. Enforce Minimum Wage Laws causing unemployment.

(d) Speed up development. Keep foreign investment in check by strict controls.

(e) Raise industrial growth. Keep control over power, telecommunications, railways, ports and the rest of the infrastructure which then is unable to meet even a fraction of our industrialization needs.

(f) Obtain high technology. Limit payment of royalty to a foreign company for transfer of technology.

(g) Promote exports. Make an exporter negotiate through 200 pieces of paper for every consignment.

(h) Reserve items for small scale industry. See that it deals with 42 corrupt inspectors.

Layers of Control - These are levels from the lowest to the top. For communication to be minimally distorted, the layers which separate the frontline supervisor from the chairman must be limited. In the best run Japanese companies it is a nifty five. Ford Motors which in 1980 had 15 levels is down to 10 and trimming.

In contrast the government pyramid has hundreds of layers separating the PM from the frontline public servants (autocrats) dealing with us. Though the PM may want to de-control, the bureaucracy may well move in the opposite direction.

S. Sanotra writing in India Today of August 15th 1991 says:

Some time ago when the government abolished licensing in some areas and replaced that with a requirement that industrial units need merely register their intentions with the Directorate General of Technical Development (DGTD), the directorate came up with procedures for registration that were almost as rigorous as those for licensing. Today a DGTD registration can take anything from three to six months to be completed.

Organization Form - Excellent companies are simple and lean. Bureaucracy, especially central bureaucracy, is shunned. Headquarters staff is kept below 100. Emerson Electricals with 54,000 employees, Schlamberger, a $ 6 billion oil service company, Dana having 35,000 people, all have a fewer than 100 staff at their corporate head office. Sam Walton the founder of Wal-Malt stores and America's richest man believed in empty headquarters, "The key is to get into the stores and listen".

In *Search of Excellence* says, "Virtually every function in the excellent companies is radically decentralized, down to the division level, at least." Johnson & Johnson, 3M and Hewlett Packard have even decentralized development of new products. Corporate staff is virtually absent and there are no planners at corporate level.

Tom Peters wrote in *Liberation Management*, "I have developed what I call "the rule of live": no more than five central staffers per billion dollars in revenue booked!" ..."It's arrogant to suggest that you can "manage" at all from the center in a fickle economy. The best you can do is unleash the power of subordinate units with distinct personalities of their own, induce subordinate units to keep spinning out new units - and then pray that the law of large numbers will "guide" you into the way of new market opportunities."

The PM, his cabinet, deputy ministers, ministers of state and their vast officialdom runs not into thousands or even hundreds of thousands but into millions. Agriculture is a state subject, but the central ministry employs 12,200. (Do they watch the green grass grow at the President's estate?) The strength of central government exceeds 40 million employees. This includes the railways, information and broadcasting, communications, defence and the bureaucracy. In 1992 India's Gross Domestic Product (GDP) was $ 200 billion. Going by

Tom Peters rule of five, the central government staff should be no more than 1000! (Defense and Law courts excluded). Yes, that is what a well run private company with a turnover of $ 200 billion would have.

What needs to be done is clear. Sell all government run businesses. Reduce central staff from millions to 1000. Get out of the way. Can we find the will to do it?

Along with gigantic size comes complexity and makes government impossible to manage. The members of Parliament first elected are overawed by the House and its byzantine systems. They do not comprehend government, forget monitoring or managing it.

Diversification and Expansion - When private companies do well, they expand, diversify and grow. Their experience, Tom Peters and Robert Waterman teach - "don't test new waters with both feet. Better yet, when they stuck a toe in new waters and failed, they terminated the experiment quickly. As a general rule, the top performers moved out mainly through internally generated diversification, one manageable step at a time."

Robert Wood Johnson, founder of Johnson & Johnson advised his successor, "Never acquire any business that you don't know how to run".

We find that:

3M which has 60,000 products and introduces 150 new products or more in any year does not expand helter skelter. The company's top management comprises principally chemical engineers and sees that expansion occurs only in the field requiring bonding and coating.

- Chairman Bob Flour, of Flour says: "we can't be everything to all people."

- Ed Harness, one time head of Procter and Gamble stated:

"This company has never left its base. We seek to be anything but a conglomerate."

- Boeing has been the most successful company ever in the history of civil aviation. While McDonald Douglas, Lockheed and others, went out for juicy defence contracts, Boeing showed a single minded devotion to fulfilling the need of commercial airlines. It has been far more successful than any of its competitors.

Big companies with enormous financial clout expanding without adequate groundwork fail:

- Texas Investment, an electrical and electronics giant, went into consumer electronics including watches. The switch seemed rational and yet proved to much for the company. For over a decade it never made any profits.

-Westinghouse, in the power generation business, ventured into making aircraft engines thinking "a turbine is a turbine, be it for aeroplanes or power generators. "The venture was an absolute failure.

- Colgate, when beaded by David Foster, tried to branch out into food, clothing, sports etc. The resulting disasters - painful retrenchments, plunging profits - finally led the company moving away from its acquisitions and concentrating on its basic product line, toothpaste. *Wall Street Journal* in 1981 carried an article under the heading "Colgate Works hard to become the firm it was a decade ago: It shucks many acquisitions and moves to strengthen its traditional products."

This shows that private companies face tremendous difficulties in venturing into unrelated fields when free competition prevails The companies which stick to the knitting perform best. In any event, a private company expands with its own resources and when it fails, it fails alone. It cannot print notes nor tax us for its survival. Compare this with the government making its business acquisitions via nationalization or otherwise. It tries to run mammoth and diverse organisations: insurance to banking companies, hotels to hospitals, mines to airlines, trading houses to telephone companies, thermal plants to nuclear reactors, shipping to buses railways to printing presses ... when no single private company or entrepreneur can manage to successfully run so many complex businesses, how can the government?

The unchecked expansion of big business houses in India into many fields was the direct consequence of government's licensing and tax policies biased in their favour. Licenses eliminated competition, the taxman prevented newcomers from accumulating any capital to challenge them.

The PM and his team run not only the army, air force, navy, CRPF, BSF, police, party with its internal politicking, elections, legal affairs, and foreign affairs but also huge businesses. Their task is impossible. The sheer magnitude of diverse, huge, extremely complex and totally unrelated operations ensures failure for any man or superman.

Is it possible for the PM to pay attention to the affairs of state, his partymen's aspiration, elections and at the same time manage iron ore mines, railways, airlines, generation of electricity, water supplies, hotels, transport, shipping...? Does the PM have the expertise to manage polities, airlines and ships at the same time? Does any man have such expertise? For us to even expect this like expecting ministers to disclose their Swiss accounts. It will not happen. The government cannot but fail.

MARKETS DISCIPLINE PRIVATE BUSINESS

In the private sector, the profit motive is a beacon guiding investment and entrepreneurial decisions. It ensures that our resources are most efficiently and productively employed. In absence of this motive lies ruination. The former East Germany faced it and so did the

former USSR.

Government enterprises unable to compete, protected by monopoly, run by those to whom political favours are owed, have wasted rupees which each of us would otherwise possess. The capital locked up in the state's white elephants would have, if left with us, taken care of our housing needs.

Election victories are times to share spoils of victory. There may not be another chance. Favours are bestowed. Plum appointment go to party loyalists. Rulers are changed to favour business friends. Commission on lucrative defence contracts a la Bofors find their way to Swiss accounts.

Capitalism and the free markets reward creativity and genius. In a free market you only become rich by producing something of value for others.

The government faces not such restriction. It removes competition not by efficiency and competence but by legislation. A private company faces bankruptcy and extinction it cannot satisfy its customers, the government asks for higher budgets. In America AT&T pays taxes and makes money by satisfying customers. Our telephone monopoly causes higher taxes and drives us to despair.

BIG COMPANIES, SMALL COMPANIES AND THE GOVERNMENT

The best companies leave their employees unhampered by onerous rules and regulations. They are free to try new ideas. It may require 99 failures before success. Yet without those 99 failures it would not have been possible to get that one success.

The bigger companies have to be acutely aware of the dangers of becoming slow moving, rule bound behemoths, or they will not be able to compete with even small start up ventures.

The gaints in the US car industry, including the venerable institution General Motors - the world's biggest company - could not prevent the much smaller Japanese and Korean car makers from continuously increasing their share of the world and the USA's automobile markets.

IBM, an example of how a large corporation should be run, could not prevent smaller, leaner companies from heating it on its own ground. The ubiquitous personal computer was originally made in a garage by Steve Jobs and his team which founded Apple, not by IBM spending billions on research.

A study by INC, a US National Science Foundation, revealed:

small firms produce about four times as many innovations per research and development dollar as medium-sized firms and about 24 times as many as large firms.

Does his justify government intervention to keep size of businesses small? No. Market forces amply control big enterprises when competition is free. There is nothing as dangerous for a big company as a new-comer with newer ideas and nothing to lose. Let market forces decide who will produce what. There is no need for an arbitrarily designed criteria of small-scale sector or growth stoppage through the Monopolies and Restrictive Trade Practices (MRTP) Act.

Tom Peters and Robert Waterman, while writing about the giant US companies like Coca-Coca, IBM, Apple, Hewlett Packard, 3M, Boeing, McDonald, Wal Mart, Dana, Procter & Gamble, General Electric ... which despite their mammoth size had established an outstanding and enviable track record, say: "It eventually became clear that all of these companies were creating almost radical decentralization and autonomy, with its attendant overlap, messiness around the edges, lack of coordination, internal competition, and somewhat chaotic conditions, in order to breed the entrepreneurial spirit. They had foresworn a measure of tidiness in order to achieve regular innovation."

The government on the other hand builds bureaucracies, lays down strict rules, regulations, policies to guide its officials every step of the way. It is their provider of bread and it will tell them their limits. It does not wish to discriminate and therefore lays down similar standards of retirement age, joining age, number of hours or days of work, wage scales... for its diverse organisations. There is nothing similar about the work it has got involved in - from operating coal mines to diamond mines, houses to airlines, five star hotels to guest houses, defence of the realm to tourism... The absurdity is apparent.

Government bureaucrats are experts in shuffling paper, making notations, passing files, anything but producing solutions. The only production is of paper. The Yes Minister TV series and books produced by the BBC caricaturing government, has a discussion where the minister, Right Hon. James Hacker on being told that all letters can be responded to by simply saying the matter is under consideration or under active consideration wants to know the difference. The reply by Bernard Woolley, his private secretary: "under consideration means we have lost the file. Under active consideration means we are trying to find it."

Under such a system it is naive to expect any productivity or creativity. From an organization where it is impossible to get a reply without bribes, can we really hope for anything? Simple approvals merely requiring signatures of bureaucrats take years. Industrialists await for investment approvals while the country is starved of consumer goods, applicants wait for telephone connections, ...and we all wait for another time and reincarnation.

Milton Friedman, Nobel laureate economist urged abolition of the USA's Food & Drug Administration (FDA) in Newsweek. In response were a number of letters which argued that the FDA not be abolished but the functioning improved in such and such a manner. To

all these letters Mr. Friedman replied in Newsweek of February 19, 1973, under the heading "Barking Cats".

What would you think of someone who said, 'I would like to have a cat provided it barked'? Yet your statement that you favour FDA provided it behaves as you believe desirable is precisely equivalent. The biological laws that specify the behaviour of governmental agencies once they are established. The way the FDA now behaves, and the adverse consequences, are not an accident, not a result of some easily corrected human mistake, but a consequence of its constitution in precisely the same way that meow is related to constitution of a cat. As a natural scientist, you recognize that you cannot assign characteristics at will to chemical and biological entities, cannot demand that cats bark or water burn. Why do you suppose the situation is different in the social sciences?

Nearly everyone has his own ideas of how the government should be run. We make the mistake of thinking that we can improve its functioning at will. This cannot be so. if there is anything pre-ordained in this world, it is that government will never be equal to the task before them; they will always fail.

14
THE ROLE OF GOVERNMENT

To embody human liberty in workable government, America was born.

- Herbert Hoover

Our rulers will best promote the improvement of the nation by strictly confining themselves to their own legitmate duties, by leaving capital to find its most lucrative cause, commodities their fair price, industry and intelligence their natural reward, idleness and folly their natural punishment; by maintaining peace, by defending property and by observing strict economy in every department of the state. Let the government to this - the people will assuredly do the rest.

- Thomas Babington Macaulay

It never occurred to a Kennedy tht the proper role of federal administration might be to guard the coasts and let UPS deliver the mail.

- P.J. O'Rourke

Governments fail. Governments are singularly inept at whatever they do. Their actions have results different and more often than not the opposite of their purported objectives. Government actions require the use of force or its threat and are divorced from voluntary exchange, freedom and liberty. They are hence, immoral as well. Under such circumstances, what, if any, role should government play in the affairs of a nation?

Having recognized the immorality of government actions and understood the ineffectiveness of trying to use the government for any objective - there is only one conclusion. Eliminate government to the extent possible. It should have no powers to act in restraint of trade, business, commerce, individual liberties or voluntary exchange. The role of government should be limited to providing a basic fabric of laws enacted for recognizing and affixing of property rights, providing for conduct of business and resolution of disputes amongst its citizens.

The government is required to deal with foreigners and defend the country against aggression from outside. This calls for the establishment of a foreign policy and a credible national defence. The government also has to protect its citizens from criminal aggression from other citizens. For this purpose it is necessary to have laws defining - and providing corrections for - crimes, and means of enforcement.

There is no other role for the government. Nove. Even where protection of citizens from aggression from within and without is concerned, remember that the world has suffered far more from the actions of governments than of private citizens. The wars, concertration camps, gulags, and torture chambers, have killed and naimed countless times more people than isolated incidents of random shootings or murders. Taxation, nationalizations, and outright confiscations of private property, deficit financing by printing notes and countless other actions of the government have taken away so much more of our wealth than extortion, thefts and kidnappings that even the caparison between the two is absurd. Adequate safeguards have, therefore, necessarily to be built into laws providing for defence and internal security. Government should never be given too much power. Never.

For the citizens of a country to be free, the government has to be controlled. The powers of the government have to be strictly laid down. Everybody should know what these powers are, what objectives they purport to serve and how far they actually serve them. The government's actions have to be limited to within the ambit of what is permitted. The citizens on the other hand must be free to do as they please save except what is expressly prohibited to prevent infringing on someone else's rights.

Freedom is my birthright was the call of Lokmanya Tilak during India's independence struggle. Freedom to act in a manner we like is not something which is granted or received as a favour from the state, giving it powers to impose obligations in return. Freedom is an inherent birthright. The government merely acts as a guarantor of this freedom which is ours by reason of existence.

Freedom is not to be confused with anarchy. By freedom we donot mean that there should be no government, we drive drunk on the wrong side of the road endangering others, take a loudspeaker into a neighbour's house and make him hear our views, or broadcast on radio and TV frequencies of our choice.

Governments are required to prevent chaos, lawlessness and mobocracy. Laws are required to secure our rights to life, liberty and the fruit of our labour. We, as citizens, would easily accept such laws. Murders, thefts, kidnappings, extortion, vandalism, trespass, nuisance... no one needs to be convinced that these are crimes. The laws providing for justice in such cases are acceptable to all and if applied efficiently without discrimination can only raise the respect of law and justice among us all. The criminal laws in India, the Indian Penal Code, can easily take care of these matters.

Governments are needed to lay down objective laws for recognition of private property and its conveyance. A framework has to be established for conduct of business and economic affairs. The Indian Contract Act of 1872 lays down the basis of a contract and is simple to understand and follow. Courts have to be provided for resolving disputes. When people deal and trade with each other, there may arise conflicts which have to be resolved in accordance with objective laws easily understood and spelt out in advance.

The laws already exist providing for these matters. The problem lies in thousands of other statutes which should never have been enacted. The answer is to repeal all such statutes which confer powers on the government going beyond what its role should be. With a few basic laws easily understood we will provide meaning to the old saying, 'lack of knowledge of law is not an acceptable excuse'. Further, the courts and police freed from unnecessary and harmful litigation will be free to render justice.

The constitution is necessary to limit the powers of the government. It is an instrument for drawing out an area in which a government may operate. Constitution is a charter - meant for regulating the government and freeing the people - it should enshrine the principles of life and liberty, freedom of speech, thought and action. It should enable us to enjoy the value accruing to us from the labour of our body and mind.

Before the government starts to do what it really should and play the role which it is meant to play, it has to get out of all areas where it should never have got involved. There are thousands of laws enacted by the central government. In addition rules, regulations, administrative guidelines and gazette notifications shackle our daily life. The central government also owns vast amounts of public property, 250 odd business undertakings and departmentally run enterprises. Further, the state governments have their own set of legislations and business undertakings. All this has to change.

Ninety-nine per cent of the laws have to be repealed and all property, assets and businesses removed from government ownership. Today it is impossible for any person to even know what the laws are, so where is the question of compliance. Even our legislators would not be able to remember the titles of all the basic acts. They would not even know the names of all the business undertakings the government is involved in. This situation has to give way to a revolutionary different future.

The proper role of the government precludes it from taking any action which has the effect of curtailing personal freedom or voluntary exchange. To see this vision become a reality, a 10 per cent liberalization, or a 20 per cent sale of shares in selected public sector enterprises is not going to serve the purpose. What is required is a revolution. Only this time it shall be bloodless; it shall free the people instead of enslaving them and it shall lay the foundations for an explosion of creativity and economic growth.

The beauty of this programme lies in its simplicity. The government does not have to plan, build, ensure growth, take care of welfare, or provide for full employment. The people will do all that. The government simply has to recognize that it is the people and people alone who will carry this country forward.

Laws are not going to feed, clothe, entertain or employ us - it is our own efforts and creativity which will take care of us. let the people be free of the bondage of unnecessary, superfluous and faulty laws, let the people be free from paying for a vast ruinous public

sector and we will find poverty, unemployment, slums, vanishing like drops of water on burning coal.

In France in the 17th century, a businessman called Legendre uttered the famous words "Laissez-nous faire!". It means: Let us alone. he was responding to the offer of Colbert - chief adviser of King Louis XIV - for help to a gathering of manufacturers. Leaving us alone is the best possible assistance which the government can give us today.

Between the 17th century and now, a lot has happened, the jury is in. The evidence before us conclusively demonstrates that progress is inversely proportional to the government's involvement in the economy. Earlier, the USA, then Japan and later South Korea, West Germany, Taiwan, Singapore all progressed under relatively free market environment. North Korea, China, India, East Germany, Cuba and the former USSR paid the price of

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paratively freer model of development. In neighbouring Pakistan, Nepal and Bangladesh also, socialism has failed.

For a time Sweden became the exemplar for socialism - Gorbachev felt that perhaps for the former USSR it was the Swedish model that was best suited after communism's collapse. No longer.

"Yet, despite government claims, it is clear that socialism has not worked in Sweden anymore than it has worked anywhere else" says an article entitled "The nation that tried to buy happiness" - by David Moller appearing in Reader's Digest of September 1991. Here are some excerpts

-"Sweden's child care scandals are simply one example of how, when you give a government too much money, you give it too much power. Directed to promote a favourable development of the young, some social workers have slapped custody orders on children who simply seem withdrawn at schools or whose parents have untidy kitchens, many parents who surrendered children voluntarily did so only under direct threat. "Sweden" she (lawyer Madam Westerberg) says, "has become a social-welfare prison state". -"The authorities have stolen our children", destroyed our lives."

- "Today taxes are so high that few Swedish families can survive on one income. While most mothers with preschool-age children would rather be home tending their children, both parents must work in order to pay taxes to support state subsidized day care centres. The effect on family has been cataclysmic. Along with France, Sweden has the lowest marriage rate in the industrialized world... Half of all Swedish babies are born out of wedlock."

-"Perhaps the worst disaster area of all is health care... In Stockholm alone, there are now some 28,000 people awaiting surgery."

-"Given prohibitive tax rates, employers find it almost impossible to get employees to work overtime. Daily absenteeism has soared in some sectors to 25 per cent of the work force".

-"Says Professor Eric Brodin, Swedish-born director of the Foundation for International Studies at Buies Creek, North California, "It is sad to see the glitter flaking from the nation that gave me birth. But socialism, whether of the Marxist, democratic or nationalist kind, is bound to fail. It is, in its various forms, a system of institutionalized envy. If the failure of the Swedish experiment in cradle-to-grave welfarism serves as an eye-opener to those who would imitate it, then it will have served an important purpose."

The history of various nations leads inescapably to one conclusion. Communism fails. Socialism fails. Both systems depend on application of force by interventionist governments and are immoral. these systems must be abandoned. Free markets, limited government, capitalism - this is the course of follow.

Capitalism is not a price that we have to pay for a failed socialist ideal. Free markets are not something we have to tolerate or live with to ensure prosperity and efficiency because it is because it is an imperfect world with imperfect people. The reality is that capitalism is the most moral system ever devised. It depends on voluntary cooperation and not on force and is the only ideal possible. We are not sacrificing morality for expediency when we adopt capitalism, we are embracing morality and letting go expediency.

The government must be contained and its role strictly limited to the following functions and the following function alone.

A. DEFENCE OF THE REALM

The government has to protect its citizens from outside aggression. There is no shortage of patriotism when people feel threatened by foreign invaders. Here also the first obligation of government is to maintain cordial relationships with all countries. Wars kill. Wars maim. Prevention is certainly better tan cure.

Under capitalism it is private enterprise which handles all trade. This by itself removes trade frictions. Governments will not get involved in retaliatory trade wars if it is people, and people solely, who deal with one another. Opening up the borders results in our citizens meeting people from other countries. This makes for better understanding. it is easier to kill a faceless enemy than to shoot people whom you know.

The recent war in the Gulf should have taught our government a lot. Not least is that government performs better when supported by the private sector. The ground war in Iraq

was won within the first 100 hours, without casualties to the USA side but with over 100,000 Iraqis killed, because of the support of private enterprise for the 38 nation coalition. Private companies such as Raytheon which build the Patriot missile, Mc Donnel Douglas and Northrop, supplied the arms and equipment.

In defence production private enterprise could certainly play a very significant role. This would bring down the cost and provide better weapons for our armed forces. It does not make sense to prohibit private defence production at home and then go shopping abroad to buy guns from private foreign companies.

B. INTERNAL SECURITY

The function is easily understood. Police are required as security against criminals. Repeal all unnecessary laws and the police might have enough time to catch some real crooks.

C. LAW AND JUSTICE

Laws are required to settle disputes and to define and lay down penalties for crimes. This is the function which today is in the worst shape. The crying need of the hour is to make a complete change and eliminate and reduce most of the laws in the statute books.

James Madison said:

It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read or so incoherent that they cannot be understood, if they be repealed or revised before they are promulgated, or undergo such incessant changes that no man, who knows what the law is today, can guess what it will be like tomorrow.

Laws should be brief. They should be universally understandable. We should not be subjected to an interminable jungle of hereinafter, wherefore and the like. And most of all we do not need thousands and thousands of laws. Other than those which are required for limiting the government, protection of property, laying down the basis for voluntary exchange and protection from criminals, all others must be repealed.

The situation, where no man can so much as read all the laws in a lifetime even if he did nothing else must be ended. Edward Bolling who drafted the constitution of the state of New Jersey in the USA thus exhorted:

Let the law be printed that everyone may know that law which he is subjected to, to the intent that no man may be condemned by a law he neither knows or ever heard of, or understands.

The basic framework of laws should be such as can be included in the syllabus of a class 12 student. By the time you pass out from school you should know what laws affect you. You may not understand all the nuances but you should know what is right and wrong and how it is enforced by laws.

We will not go into details of specific legislation; on that there may be many disagreements among learned men. These may again, be much fine tuning required as courts gain experience and decide actual cases.

The basic principles are, however, universal in nature and stand the test of time. A man's right to life is inviolable. Whether the state should execute people for murder can be a matter of debate. What actions constitute self defence and what degree of force is justified - people may not see eye to eye on that. Man is entitled to the fruits of his labour, right to property is sacrosanct and at the very core of our rights. What is admissible evidence in a trial for theft or extortion may be a matter on which men may hold differing opinions.

If the fundamental principles are clear, recognized and we stick to them, we can arrive at a framework of law which cuts 99 per cent of the existing statutes.

Gone would be the tax acts, labour laws, all laws in restraint of trade, laws casting onerous obligation on business and all others which contradict the voluntary exchange ethic. Retained would be the constitution in a drastically reduced form detailing our fundamental rights and severely limiting government: laws facilitating trade and commerce, resolving disputes, forming of business organizations - e.g. the Contract Act, Partnership Act, and simplified form: the penal code detailing criminal action and means of dealing with it.

Even here in the field of law and justice, the groundwork can be laid for a greater participation of private enterprise.

In the USA the private sector is increasingly getting involved in the justice market. Courts in the USA are overloaded and clogged. America's legal problem stem from the Congress which passes 200,000 new laws each year in addition to countless rules emanating from the bureaucracy. The sheer volume has fattened the lawyers at the expense of citizenry and taken the legal system beyond comprehension. "The average lawyer drains one million dollars a year from the US economy. The 500,000 US lawyers sap the economy of half trillion dollars or 10% of the GNP," says Stephen Magee, an economics professor at the University of Texas. The yearly loss due to law and lawyers in the USA exceeds India's entire annual GNP by 66 per cent.

People are turning increasingly to private arbitrators and even private court rooms which hire juries. The American Arbitration Association processed 60,000 cases in 1990 according to an AFP Report of June 20, 1991 from Washington which goes onto add that even sceptical civic groups have found little fault with this marriage of justice and business.

The *International Herald Tribune* of September 24, 1991 reported,

Thirty states now give retailers the power to extract payments and fines from shoplifters they catch in the act. The culprits sign agreements in the store acknowledging guilt. They then settle their cases by mailing in payments covering the cost of the merchandise and possible additional penalties. The stores save time and expense by bypassing the police and courts. And shoplifters get no criminal records. Those claiming innocence can demand either that they be formally charged or that the matter be dropped. And the store has the option of filling criminal charges against repeat offenders. Woolworth, A&P and other chains say that the laws have cut their theft losses as much as 80 per cent in one year.

Besides this civil courts could well collect court fees from litigants instead or depending on government taxing the population at large.

Ronald Coase as quoted in Cato's Journal wrote in 1974,

The early history shows that, contrary to the belief of many economists, a lighthouse service can be provided by private enterprise. ... The lighthouses were built, operated, financed, and owned by private individuals. ... We may conclude that economists should not use the lighthouse as an example of a service which could only. be provided by the government."

If the political will is there government can be moved out of most functions, even those that we have been brainwashed into believing only the government can provide.

One may now ask that even with the government out of most of our affairs and limited government out of most of our affairs and limited government in operation elsewhere, would it still not require some money for its activities? Yes it would. But the amount required would be far less - it can only be an infinitesimally small fraction of the vast sums being spent today.

However, even this smaller amount has to be raised. Most people would be willing to pay voluntarily for these services provided means could be found to ensure that the burden rests on every one in equal measure. We have seen that there is no dearth of people who volunteer even to lay down their lives when the country is threatened. There may arise a problem of free loaders - i.e. some people might decide not to pay and yet enjoy the benefits of a national defence contributed by someone else. To obviate this perhaps one single flat tax on a single commodity of general use could be levied at its first source of production or import, example: oil. This is certainly not a perfect solution as threat of force may still be required to ensure compliance but is nowhere near the prevailing unjust system.

Even the tiniest fraction of government intervention in economy, to be it only to raise money for national defence or for police - though even need for this can be substantially eliminated by use of private enterprise to the fullest - requires application of force. This undoubtedly makes the action immoral and unjustified. When a compromise like a single

flat tax on single commodity, is suggested it is only for reasons of space and practicality. If and When we have achieved the degree of freedom from government as envisaged, then one can debate measures to remove the last vestiges, the final fraction of a percent of government intervention and move towards a completely free and voluntary society. Until then the argument rests.

15

INDIA OVERTAKING THE USA?

IS IT POSSIBLE?

Thomas Jeffersons, with all his brilliance and great onfidence in the future of the Republic, thought it would take a thousand years to settle the west. He underestimated what free men can accomplish, given the opportunity to create for themselves with minimum government interference and restriction – William A. Patterson, President, United Airlines

India has natural resources few countries possess. India is strategically placed between the west and the east with a long coastline ideally suited to the development of trade. India has the manpower. India, after China, has potentially the biggest market in the world for products and services. India, today, has all the advantages – more than Japan, South Korea, Taiwan, Hong Kong or Singapore – and none of their disadvantages, India's manpower is greater, its potential markets bigger and natural resources far in excess of these other countries.

To repeat an old cliche India is a sleeping giant. After 47 years of independence it is time for India to wake up – even giants should not slumber indefinitely. The only way for this giant to leave its comatose condition would be by freedom from its inept socialist-statist-interventionist government.

We with our per capita income languishing at an abysmal $ 300 per annum, bulk of our populace mired in mind-benumbing poverty, have been badly served by our government. It ill behoves the government of our poor country to squander out wealth expropriated by inflation, taxation, controls and regulations.

If only we could know of all the resources which have gone into sustaining our parasitical government, we would never tolerate the situation any further. All of us have lost. Even people employed with government would have been far better off living in a free country and working in the private sector. Their salaries would be far higher, their jobs vastly more satisfying, the choices of goods and services available infinitely greater than under our present system which beggars everyone. Anybody who doubts it has only to go to relatively freer lands – in the East to Japan, Hong Kong, South Korea, Taiwan, Singapore; in the West to the USA, Western Europe – to realize the truth of what is being said.

There are still people who preach communism and many more who advocate our socialist pattern. Why is it that they do not want to live – in China, the former USSR Vietnam, Burma

or Ethiopia – or send their children for education to these countries? Why is it that lines always form outside the embassies of the USA and UK for migration, and for shopping visits to Singapore, Hong Kong, Dubai and Bangkok. Government officers, sons, daughters and relatives of ministers have hardly visited or wish to live in Cambodia, Loas, Cuba or North Korea.

The sleeping giant has been nudged a little to be sure. The year 1990 was a watershed for India. The thinking of the government has taken a turn. Having completely failed with our socialist misadventure, we have moved towards liberalization and if nothing else, it gives us hope that perhaps we may see some real changes in the future. The giant needs more than a nudge to awaken it and make it roaring fit to take on the world.

The changes effected so far fail to resolve the chronic problems plaguing our economy:

a) The budgetary deficit looms larger than ever – the printing presses keep rolling at full speed to fund our deficit. The 1994-95 budget estimates the deficit at Rs. 58,000 crore. Too much paper (notes) chasing goods and services can only lead towards one thing: inflation.
b) Increasing deficits mean that government's expenditure is showing not signs of abating. An attempt was made to cut some subsidies on fertilizers, etc, but were substantially restored under pressure.
c) Taxation, already at levels where it hurts everyone causing the poor the most grievous injury, has been increased in real terms. In 1994-95 budget, the income tax threshold was increased to Rs. 35,000. However, at today's level of the rupee's purchasing power it would have to be Rs. 48,000 to match the Rs. 15,000 threshold of 1981.
d) India continues to have hundreds of different excise and sales tax rates. The number of comparable rates (VAT) are 1 in Denmark; 2 in Taiwan, Brazil, Japan, UK and Germany; 3 in Mexico and Indonesia; and 4 in France. Manmohan Singh or no Manmohan Singh, the Indian bureaucrats' penchant for complicating life shows no sign of letup.
e) The question of full convertibility of the rupee is still left unaddressed after being bandied around for years.
f) The political will to deal with mounting burden of debt is completely absent. The fuse is burning. If nothing is done it is only a matter of time before the debt-bomb explodes and destroys even this pitiable existence of the impoverished masses of our unfortunate country.
g) Though
MRTP has been relaxed and industrial licensing abolished (other than for 18 industries) the rest of the bureaucratic maze retains, viz: labour laws, Foreign Exchange Regulation Act (FERA), Conservation of Foreign Exchange and Prevention of Smuggling Act (COFEPOSA). (The acronyms are all that sounds nice about those acts.)
h) The parasitic, monopolistic white elephants which are termed government's departmentally run undertakings: railways, telecommunications, post; public sector

undertakings constituting over 240 companies; various state enterprises – the number of which is unknown even to the central government – remain. Selling 20 per cent of the share capital of certain selected enterprises is a cipher as fas as privatization is concerned.

The burden of government falls most heavily on shoulders which can least bear them. The poorest of the poor are the ones on whom the load rests. The rich are not unaffected but for out indigent masses it is virtually a matter of life and death.

What may be an inconvenience for the rich may well be fatal for the poor. Non-availability of price controlled life-saving drugs may require a shopping visit abroad by someone who can afford it; the destitute will have no option but to pray and await death. Minimum wage laws may not allow an entrepreneur to start a business; for the unemployed it could mean suicide. If the electricity supply from the state-owned power plants fails during Delhi's sweltering summer, at the five-star hotels and residences of Tatas, Birlas and Ambanis generators would automatically switch on; for worker's child who is left without a fan a heatstroke could be life threatening. A simple electricity failure can mean lost production, lost income, a lay-off of staff and perhaps the collapse of a struggling business. Who in their right minds would invest in an industry if the monopoly state-owned infrastructure services are so pathetically unreliable?

Are the above examples mere aberrations? Is it still feasible for the government somehow to soak the rich and help the impoverished? The answer is a resounding No. The actions of the government today have expanded so much tht it has absolutely no option but to make everyone suffer. The government cannot afford to let anyone not pay his dues to it. It requires us all to be sacrificial lambs at its altar. Let us recapitulate the main way -

A. Taxation - Gone are the days - not that there were many - when the government could merely extract from the rich. During Indira Gandhi's regime, tax levels (income tax and wealth tax etc.) on some went over 100 per cent of the income. The policy destroyed all incentive to work. The policy was an utter failure. Tax rates were scaled down thereafter. Even our government could not bear the thought of killing the goose laying golden eggs.

Time and time again, in country after country, experience has shown how beneficial reduction in taxes is. It leads to better compliance, higher production - capital left in private hands is productive, with government it is squandered - greater employment opportunities, enhanced quality of life and ultimately higher revenue for the government.

The government's 1994-95 income is expected from -

Customs	15%	
Excise	21%	36%
Corporation tax		7%
Income tax		6%
Other taxes		1%
Internal & external borrowings		31%
Other revenue		19%
		100%

Customs and excise duties which are direct levies on what we buy, beat collection from income tax by a ratio of 6 to 1. So much for taxing only the rich! The truth is the government has become so big that it is absolutely impossible for it to sustain itself by taxing only the rich. Even if the entire income of individuals earning in excess of Rs. 2lakhs a year were confiscated, it would hardly suffice to meet government's expenditures for a month.

B.Debt - The higgest single item of expenditure for the government if 1994-95 is interest on its mountain of debt. Rs. 48,000 crore is budgeted for this purpose, being more than twice the outlay on defence. In 1981-82 that is just 13 years ago government of India's total public debt (external and internal) was Rs. 47,000 crore. Today the interest exceeds that amount! Such is our government's affinity to live beyond our means. This is despite the fact that the government has cornered most of the funds available in the country at extremely low interest rates.

Government borrows to sustain its current expenditure and the debt shows no sign of abating. This money which is thrown away leaves all of us desperately short of resources. There is a capital crunch and a credit squeeze. Higher interest charged to businesses increases the cost of production and is reflected in the cost of our daily necessities.

Thomas Jefferson said about debt -

I place economy among the first the most important virtues, and public debt as the greatest of dangers to be feared... To preserve our independence, we must not let our rulers load us with public debt... we must make our choice between economy and liberty or confusion and servtude... If we run into such debts, we must be taxed in our meat and drink, in our necessities and comforts, in our labour and in our amusements... If we can prevent the

government from wasting the labour of the people, under the pretence of caring for them, they will be happy.

C. Inflation - Constant expansion of government expenditure means that mere taxes and debt will inevitably fall short in raising enough revenue. The next stratagem: print notes to the extent required. Constant debasing of currency has been the consequence. All governments have resorted to this. In India, we have seen inflation far in excess of what has taken place in the developed world.

Businessmen, industrialists or traders do not have the authority to print notes. They are not in a position to cause inflation. Individual prices could vary but overall increase in prices stem from one reason alone: government printing additional currency.

Let the money supply be constant. Then, every increase in productivity, new invention or new product would increase the quantity of goods and services available in relation to the now fixed quantity of currency. It does not require a great deal of imagination to figure out that prices would come down not go up under such circumstances.

Inflation is a brutal reality for all of us. For the poor it is the worst nightmare come true. Wage earners have seen their salaries go up but never ever compensating fully and immediately for inflation. Who gains? Almost no one, as inflation merely reflects huge government losses and inefficiencies being passed on to us. Is it still to early to put an end to this swindle?

D. Laws, rules, and regulations - This is the venom of our society. The burden again falls on the poor. Legislate minimum wage laws and it is like legislating unemployment. Legislate rent controls and ensure that people will live under the stars. Have an industrial policy and ensure that the monopoly position of many industrialists is maintained. Institute licensing and entrenched firms will manage to keep out upstarts and newer firms.

Government's intervention as we have seen in Chapter I is morally indefensible. We have also dwelled on how government has failed in every sphere where it has intervened. There is thus neither any moral justification, nor any justification based on effectiveness, efficiency, public interest or common good.

In fact, to go a step further we can safely conclude that the seeds of government's failure lie in its very foundation. Government relies on force and goes against the basic instincts of man. It tries to abrogate man's inalienable rights. Any system with such shaky roots cannot, is not, and will never be successful.

This then is the story of socialist, humanitarian government. As has been stated earlier, tinkering with the system is not going to help. What is required is a complete break with the past. The vicious circle of higher and still higher government expenditure being met through higher and higher taxes, debt and inflation has to be broken.

How do people stop smoking? The only successful attempts are where people give it up cold, not in stages. How do you get the government out? The same way - out cold. The gradual abolition of controls doesn't make sense and doesn't work. Government agencies and bureaucrats are incapable of handling any loss of their prestige or position and will do everything that can be done to preserve status quo.

You may now ask whether wholesale abolition of government is possible or a mere pipe-dream. It may at present be just that - a pipe-dream.But who knows? It is an age of miracles.

Anything can happen and does. Who could have thought of East Germany uniting with West? No one ever visualized the complete collapse of the former USSR and communism in the whole of Eastern Europe. Pakistan's Ex-Prime Minister, Nawaz Sharif talked as if he is one of the greatest votaries of capitalism. Even our India has moved away from Nehru's path of government achieving the commanding heights of economy. Our government, along with other governments around the world, have lost all appetite for any further bouts of nationalization.

Breaking with the past is traumatic. Bureaucrats used to exercising control, politicians accustomed to the waiting hordes of businessmen pleading for favours, do not and cannot be expected to give up their power easily. The problem is further compounded as our bureaucrats have come to believe:

- that somehow a license granted or not granted fosters industrial progress;

- that time is most productively spent in generating numbers for tax return;

- that printing notes somehow stimulates the economy;

- that the public sector promotes equality;

- that the state taking on ruinous debt, both internally and from abroad, results in a higher GNP;

- that regulations protect consumers and workers.

These myths have been exploded as never before and today those who believe in individual freedom see signs of hope.

A drug addict who wants a cure faces the trauma of withdrawal symptoms. A restaurant owner who faces declining sales may initially cut quality in an attempt to preserve profitability. As a result, sales will go down even more forcing him to cut quality further. This vicious circle of lower sales and falling quality can have but one consequence - bankruptcy and closure. If he wants to succeed he also faces a trauma of having to reverse course, i.e. incurring higher expenditure on quality and making a complete break with the past.

Governments, however, do not give up so easily. Governments, do not declare bankruptcy, they incur debt, print notes, and pile regulation upon regulation. The result ultimately has to be the same as for the addict who goes on increasing his dosage to get the same amount of kick and the restaurant which keeps compromising on quality to preserve profitability. The addict and restaurant owner if they persist would only self destruct. The government when it persists will destroy the nation and hence itself.

Traumatic though it may be, government has to change course. It would have to give up power and lose its pre-eminent position for us to progress. The results would be so beneficial, favourable and advantageous that it makes the struggle exceptionally worthwhile, surpassing the good from anything else that we may strive towards.

The USA today is not the free country it used to be. It may be freer than many countries. it may be the most free in radio and TV broadcasting. However, even here government regulations have become quite strangulating. Government in the USA may not be as bad as certain other regimes but that does not make it good. It merely proves how ruthless, control-minded, regulation-oriented and destructive the other regimes are.

Unbelievable though it may sound to us who regard the USA as the ultimate in free enterprise, the following statement was made by Ronald Reagan on September 9, 1980 four months prior to his becoming the President.

We must move boldly, decisively and quickly to control the runaway growth to federal spending, to remove the tax disincentives that are throttling the economy, and to reform the regulatory web that is smothering it.

We must keep the rate of growth of government spending at reasonable and prodent levels.

We must reduce personal income tax rates and accelerate and simplify depreciation schedules in an orderly, systematic way to remove disincentives to work, savings, investment and productivity.

We must review regulations that affect the economy, and change them to encourage growth.

We must establish a stable, sound, and predictable monetary policy.

In spite of Reagan's best intentions and deep commitment to free enterprise, he was substantially unable to do what be promised.

He did initially manage to lower taxes. They rose again in 1982. He was unable to stop the government from growing. He did manage to decelerate the rate of growth. Regulations were not repealed. New ones being issued by various government agencies were slashed by

two-thirds. He was quick enough to remove controls on price and distribution of oil. The results were so spectacularly successful - decline in prices and free availability - that to date price controls on oil have not been reintroduced. Overall, though Reagan was not successful in pushing his agenda through an unfriendly congress.

Government spending at federal, state and local level exceeds 40 per cent of the national income. This means that in the USA everyone works for about five months in a year to support the government.

The budget deficit looks set to balloon to US$ 400 billion (Rs. 1,24,000 crore) every year in the Clinton's mid nineties. This is despite the Congress passing balanced budget bills - all in vain. The outstanding federal debt alone (not counting state and local government debts) is 30 per cent of the national income and growing.

People are hooked on government unemployment benefits, medical aid and other welfare schemes. Many would rather sit at home and exist on government doles than work. People with for lower taxes and balanced budgets without elimination of government handouts - clearly an impossible task.

A detailed explanation of all that ails America today is beyond the scope of this book. Suffice it to say that America is no longer the dream country it was once upon a time.

William E. Simon has urged:

Stop asking the government for free goods and services, however desirable and necessary they may seem to be. They are not free. they are simply extracted from the hide of your neighbours - and can be extracted only by force. If you would not confront your neighbour and demand his money at the point of a gun to solve every new problem that may appear in your life, you should not allow the government to do it for you... This one insight understood, this one discipline acted upon and taught by millions of Americans to others could do more to further freedom in American life than any other.

Is it any wonder that America is always, either passing through a recession or experiencing a minute rate of growth when compared with most East Asian countries? It looks extremely unlikely that the USA GNP growth would average out to more than an anemic two per cent per annum during a five year period. If the American government does not curb its propensity to tax, acquire mountains of debts, create record-breaking deficits and spend, then it will eventually face the same fate which its one time arch-foe and superpower, the dismembered former USSR faces today. And it will happen within the life time of most of us. And as surely as East Germany collapsed, so will the USA if it does not change course.

The USA does have one great advantage. It has the freest press, radio and TV. Hopefully public opinion in favour of lesser government will be created, which the politicians will not be able to ignore. Publicity given to early warnings by economists like Milton Friedman and

others enhance the chance of remedial measures being taken before a total collapse.

India does not, as yet, have a nationwide health insurance or universal unemployment benefits. This is not because our politicians would not like to grant this if they could, but because it is far beyond the capacity of our nation to bear. The government has therefore to fear far less from a public backlash when it goes towards lesser intervention and freer markets.

Who in our country would not like to see cheaper goods and services, better telephone availability, continuous electricity supplies and a general improvement in the standard of living? Who would not like to be able to afford a TV, refrigerator, scooter, car, or house? Capitalism - laissez faire capitalism - holds out the promise of all this and more.

There was no great outcry or popular sentiments against the limited liberalization begun under Narasimha Rao's government. It has not fallen even though it is in a minority. Any government which undertakes sweeping reforms restricting the government to its role will obtain undreamed of accolades, Even if there is initial apprehension and unease, a few months of free enterprise is sure to silence even the most sceptical. The benefits of these changes would be so universal, so evident to all that the next election is sure to be a "shoo-in" for the party which institutes the reforms.

What stands between us and prosperity, freedom and greatness is merely our thinking. The reforms by themselves are easy enough to implement. No five year planning or even five month planning is required. Elimination of controls, repeal of unnecessary laws and simplification of others to make them compatible with the voluntary exchange ethic would require no more than 10 days, probably even less. Sale of the entire public sector and the rest of government property should be no more than a 100 day programme. There is nothing like a quick, immediate and clean break with the past.

The government should then restrict itself to protection of our rights: internal security to guard us against criminals, defence to secure our borders, and administering of justice to resolve disputes. Period.

The growth we can achieve under such a system will easily exceed 20 per cent per annum. At that rate of growth compounded annually and economy would double it self every four years! Before you throw up your hands in disbelief let us see why this is entirely possible.

It is true that no economy has expanded itself this rapidly in modern times. Yet no country has the freedom which is being spelled out here. Taiwan, Thailand, Malaysia are growing at rates of about 10 per cent. Japan, Hong Kong, Singapore and South Korea have achieved these levels quite consistently in the past. None of these countries have been truly free. The governments have levied taxes and tariffs, restricted certain imports, and have regulated industry and trade. They have relied mainly, and relatively more than other countries, on free enterprise; they have, however, never been fully and completely capitalist. In fact other

than about 25 countries, the rest of the world continues to spell disaster for itself by detailed and corrupting interventions.

India is much larger, and possesses vast natural resources. In the past this proved to be more of a liability than an asset as some say the richness detracts from the necessity of competitive advantages. It breeds an insular thinking, making India and China feel that international trade has to be sacrificed to foster uncompetitive, uneconomic and damaging self sufficiency and self reliance.

Y.C. Jao, a reader in economics at the University of Hong Kong, who has published extensively on economic development in Hong Kong and China, had this to day in a special feature appearing in the September 1991 issue of Reader's Digest:

Indeed, if we look at all the Asian countries immediately after the end of World War II, their initial conditions were not very different from each other. True, Japan had the most developed industrial structure, but in 1945 its economy lay in ruin after a decade of imperial war. Hong Kong and Singapore might be richer than others but not by much, as both were mere entrepots without an industrial base. South Korea and Taiwan were as poor as mainland China. South Korea was, in addition, the victim of a brazen aggression from the North in 1950-53, indeed, all countries suffered grievously from the war and from Japanese occupation, except India (which then comprised of Bangladesh and Pakistan) and Thailand. Yet 40 years on, Japan has become an economic superpower, Hong Kong, Singapore, South Korea and Taiwan have bee universally acclaimed as the Four Little Dragons, and Indonesian, Malaysia, and Thailand have been evolving into the next dragons. But China, India and other countries have remained poor, and are still being classified as 'low income economies'.

We can only imagine the tremendous potential which India can rely on for growth when her natural resources and people become assets by pursuance of free market policies.

Creation of an absolute free environment would result in a flood in foreign investment to India including from our own non residents. India today of September 30, 1993 compared India with China:

India is seeing the one thing that it doesn't want to see: China's approach to liberalisation packs a greater punch than its own, and may be drawing away, at least for the next few years, some much needed investment funds that might otherwise have come India's way.

It shows, already. More than 85,000 joint ventures, foreign enterprises and co-operatives have been registered in China, half of them last year, with committed foreign investment

projects adding up to $ 58 billion (Rs. 1,79,800 crore) or 50 times that in India. Exports may cross $ 100 billion-mark this calendar year - four times that of India - and the industrial output rose 21 per cent last year, six times the rate here. Chinese factories roll out 15 million colour TV sets a year compared to one million in India. It produces half a million cars annually with foreign collaborations - with Daihatsu and Volkswagen, among others - almost twice as much as India. In every sphere of business, reflected practically in very economic statistics, China is way ahead of India.

The ridiculously low level of foreign investment in India is a joke. Almost each of the Fortune 500 companies (the worlds biggest 500 industrial corporations) can invest more. Some of the biggest companies like Royal Dutch Shell, Exxon, General Motors, Toyata, IBM, Ford, ...possess the capacity to invest ten times as much by themselves individually. the Chinese people had endured horrible suffering, great hardships and immense deprivations under Mao. Y.C. Jao writes:

The open-door and economic reform policies launched in 1979 had indeed, at least up to 1988, given a new lease on life to the economy.

The abolition of the communes and the establishment of the 'household responsibility system's gave the peasants for the first time since 1949 some economic incentives. Farm output therefore rose sharply. The opening to the outside world led to rapid expansion of foreign trade and accumulation of forex reserves, Small private enterprises were allowed to operate, and previously banned financial institutions and markets were reopened. As a result, the economy grew at the sizzling rate of 9.6 per cent per annum during 1980-89. Unfortunately, toward the end of the 1980s, inflation careened out of control owing to the lack of fiscal and monetary discipline. Even more tragically, the savage military suppression of the pro-democracy movement in June 1989 cost mainland China enormous goodwill of the international community toward its modernization drive. At any rate, despite its impressive growth in the eighties, mainland China's per capita income in 1989 was only US$ 360. Even this figure is likely to fall because of the substantial devaluation of the Chinese currency.

Foreign investment and technical help was a substantial contributor in China achieving a growth rate of almost 10 per cent per annum during the last decade. This, despite it remaining communist and keeping intact a bulk of its restrictive policies in most parts of the country. International Herald Tribune of November 15, 1991 carried an article entitled "On China's South Coast, Free-Market Programs Let a Thousand Capitalists Bloom". Some excerpts:

... Welcome to Guangdong Province, the freewheeling, free-market area along China's southern coast that, by local estimates, is now among the fastest-growing economic regions in the world.

Guangdong's real industrial output grew in the 1980s at an average annual rate of 19.7 per cent, which analysts here said was by far the fastest of any province in Chine. The growth rate jumped to 27.7 per cent in the last 12 months. The province's savings rate last year was 32.8 per cent.

Economic changers were begun here in 1982, when Guangdong was permitted to go "one step ahead" of the rest of China in experimenting with free-market programs. At first, foreign investment was largely limited to three special zones along the coast - Shantou, Shenzen and Zhuhai - but it has spread to most of the province.

In the years since, Guangdong's economy increasingly has moved outside the supervision or control of the central government in Beijing. Last year, for example, just three per cent of the province's total investment came out of the national budget.

... Guangdong's pet revitalization project, it turned our, was a joint venture with Procter & Gamble that is producing Western-style items like shampoo and skin cream for the domestic market. The factory was hugely profitable last year, sending Beijing over $ 19 million in taxes - or more than three times what the Guangzhou soap Factory had contributed in its previous 35 years, according to local observers.

Mr. Li is said to have remarked approvingly at the end of factory visit, "They are taking Chinese workers and training them to an international standard."

And according to local residents, he later told a meeting of the Guangzhou city leadership: "Reform is the road from which we will not veer."

....Guangdong is already far enough down the capitalist road that it would be hard for the province to turn back. The psychology of entrepreneurship has begun to take hold here, and residents are aggressively seeking new ways to make money. ...

If this can happen in a region in China then why not in India as well?

People will invest in India not due to our appeals or because we need such investment but for their own gains. Vast markets, cheap labour and a free economy is what will attract them. In an environment free from government restrictions who will not want to invest here? Capital will come and remain here reflecting greater opportunities. When a company find that its cost of production goes down and profits zoom by shifting operations to India, in absence of government prohibitions, it will do just that.

At this moment, India has created an immensely strong dam holding back investments. While we are starved of foreign exchange, on the other side is a world with immense resources and capital. Tear down the dam and we will have a flood of investment running into billions (not millions) of dollars. Yes, the government has accumulated 16 billion

dollars in reserves after the recent liberalization. Madhu Danwate writing in *Indian Express* on April 5, 1994 said that this had to be seen against the backdrop of $90 billion in external debt including NRI deposits.

The tremendous synergistic efforts of free market and free flows of foreign investment in *a Laissez Faire* capitalist environment, coupled with our vast markets and immense natural resources, ensures that a 20 per cent growth rate is not unduly optimistic. Entrepreneurs have been known to make their investments multiply even a 100 times in 10 years. Government eliminated income tax on exprots and look at the results on certain companies in India. *India Today* of March 31, 1994 reports marines Foods had an export turnover of 2.2 crore in 1990-91. In 1993-94 just 3 years later the turnover was 159 times more at Rs. 350 crore. And, a country's growth rate is nothing more than the aggregate of growth rate of all its economic activity.

A region in southern China as stated earlier is exploding at a growth rate of almost 30 per cent per annum. Businesses routinely grow by over 20 per cent a year so why can't a country achieve the same? In addition to existing businesses expanding, there will be many more which will start for the first time and give us a variety of products which we can hardly even dream of. In such an ambience. Growth rate of 20 per cent may not only be met but exceeded.

Yes, given the right conditions - freedom from an oppressive government and a chance for people to work and earn for themselves and to keep the fruits of their labour, any country will progress. Indians will, Chinese will and even the Russians will.

We have an example from history, cited by Alexei Izyumov in the *International Herald Tribune* (December 3, 1991):

Given the chance to work for themselves, Russians can do wonders. In the late 19th and early 20th century, a period of economic liberalism in Russia, Russian industry outpaced that of major European countries and the United States, while Russian farmers supplied one third of the world grain market, In the same period, Russian literature, art and sciences blossomed, producing such giants as Tchaikovsky, and Mendekeyev. Had it not been for the imposition of the new Communist serfdom in 1917, Russia might even have caught up with the west in the following 20 to 30 years, much as Japan did after World War II.

In India in 1976 the finance minister introduced a bait to increase production called the excise duty rebate scheme. It meant that on additional production over a base period, the excise duty would be only 75 per cent of the normal rate. The assumption was that industry would rush to produce more to enjoy the lower duty, reduce prices and consequently expand the market. That is exactly what happened. In three years, 1976-79, the rate of growth of industry was 7.5 per cent. Production increased, employment increased and so did government revenues. The scheme was withdrawn in 1979 as government could not

resist its full bite of tax, and growth dropped to normal. If the growth was 7.5 per cent following a 25 per cent rebate on enhanced production, just think what it would be with a 100 per cent rebate on entire production. Phenomenal: certainly over 20 per cent!

Assuming that the USA continues on its present course, it would be likely to grow at over two percent per annum over any five year period. Table a gives us the expected growth of GNP of both USA and India under such a scenario.

TABLE A

FORECAST comparing GNP growth in India and USA.

India growth 20 per cent per annum.

USA growth 2 per cent per annum.

	GNP (US$ Billion)	
	INDIA	USA
Base year 1995 (estimated)	300	6,000
2000	750	6,620
2005	1,860	7,310
2010	4,620	8,080
2014	9,580	8,740
2015	11,500	8,920
2020	28,620	9,840
2024	59,340	10,660

With this growth differential India's GNP would exceed that of the USA in the year 2014. That is, in just a couple of decades, India's economy would be as big as the US economy. Table A shows India's GNP standing at US$ 9,580 billion against $ 8,740 of the USA in 2014. Graph A depicts India's GNP catching up with the USA Sometime between 2013 and 2014.

It would take some more time for individual Indian to be as well off as their US

counterparts. Let us assume that India's population, increasing faster, is by year 2024 five and a half times that of the USA. Presently it is only about 3.4 times that of America. We find that India's economy at a GNP of US$ 59.34 trillion in 2024 is 5.56 times that of the USA at $ 10.66 trillion in the same year. At this level an average Indian would be better off than his US counterpart.

The Indian economy rivalling and even overtaking that of the USA in 20 years, and Indians being individually as rich as the Americans in 30 years! Looks unimaginable, utopian! Is it even conceivable let alone practical, for us to march the standard of living of one of the world's richest countries within the life time of most of us? Yes, definitely so.

History is full of examples of the rise and fall of mighty civilizations. Taxes and government intervention have caused the downfall of many an empire right from the time of ancient Greeks and Romans to that of the British. People went to America to flee from tyranny at home. The rugged, highly individualistic people who reached its shores valued freedom above all else.

Protection of man against the government was America's ideal embodied in the Virginia Declaration of Rights in 1776 and Bill of Rights in 1791. Thomas Jefferson, US President, at his 1801 inaugural talked about a 'wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement.' How far indeed has the USA strayed from this ideal!

The US government today is neither wise nor frugal, nor has it any intention of leaving men free to carry on their pursuits. Government started to intervene in the early years of this century and it is only in the last four decades that the maximum havoc has been wrought.

Taxes, debts, deficits and regulations have cost America dearly. Japan stood vanquished - two cities destroyed by the only atomic bombs ever used - at the end of World War II. America was the undisputed victor. In 1955 President Eisenhower's secretary of state, John Foster Dulles, declared that Japan's trade deficit with the USA would be a permanent fact of life. The administration's view was that Japan will Always be a ward of the USA.

If anyone had then thought aloud about Japan ever running a trade surplus with the USA he would have landed in an asylum. The idea of Japan's per capita income matching that of the USA would not even have struck a lunatic. By 1965, i.e. in 10 years from when Dulles had talked about the permanency of the Japanese trade deficit, Japan was running a surplus. In 1991 it was US$ 41 billion (over Rs. 120,000 crore). The World Bank reported that in 1989, Japan's per capita national income at US$ 23,730 had exceeded in USA's at $ 21,000.

In 1989, Singapore and Hong Kong had exceeded US$ 10,000 in per capita income and with a growth rate of almost six per cent against the UK's three per cent, are all set to march Britain by the year 2000. By this time South Korea and Taiwan with the highest growth rates in the world could safely be assumed to exceed $ 10,000 in per capita income. This

rapid transformation whereby in a matter of two decades, countries catch up with the most affluent societies, is the unprecedented outcome of differential rates of growth.

Japan coming from far behind and now leaving the USA behind, Singapore and Hong Kong within striking distance of UK (whither the British Empire), Taiwan and South Korea well positioned to match the industrialized west a all prove the transience of poverty, under the right circumstances.

Simply put: where reliance is on people rather than government, on private enterprise as opposed to public sector and where property rights are respected, economics out-perform those of regulated countries. It all comes back to one word: Freedom.

Nothing in this world or in the affairs of a nation is permanent. This has to be our perspective when looking at what is possible if India were to achieve its second freedom. The first one was against rule by foreigners. The second one must be from our own oppressive regulations and control-minded government. The government we have is a 12,000 Ib dinosaur, and what we need is a 120 Ib beauty. That is the bloodless revolution which will lead to wealth for all. It is what will transform India and truly make it a 'golden bird', the name by which it was known centuries ago.

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