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How Foreigners Improve our Standards | *Times of India* | 29 July 2007

Slumping Stock Markets and the Inequality Debate | *The Economic Times* | 29 August 2007

The Path to Nowhere Leads to Success | *The Economic Times* | 18 June 2008



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## HOW FOREIGNERS IMPROVE OUR STANDARDS

29 July 2007

Some Indians are gleeful about the terrible bashing China's image has taken after a spate of scandals about the quality of its exports to the USA.

- Toothpaste and medical exports contained toxic antifreeze, passed off as glycerine.
- Gluten in pet food contained toxic melamine, and poisoned thousands of American dogs and cats.
- Fish were contaminated with banned antibiotics and chemicals.
- Toys contained banned lead paint.
- Juice exports had unsafe colour additives.
- A toxic dye was used to color egg yolks red.
- Pork was tainted with clenbuterol, a banned feed additive.
- 450,000 tyres were found unsafe, liable to burst.

The problem extended beyond exports. An internal Chinese survey in the first

half of 2007 disclosed that one-fifth of the products of 6,300 factories had quality or safety violations. A reporter of the *Los Angeles Times*, who was investigating a case where bribes saved a company from penalties for light bulbs that exploded, was kidnapped and threatened by company employees. They told him that complaining to the authorities would not help him: they were the de facto authorities.

China's best-known consumer activist, Wang Hai, says that informants reporting frauds confidentially can wind up dead. "A good system for guaranteeing quality simply doesn't exist in China", he says.

Yet dramatic things have happened after the export scandals. To save face, China has banned the import of some US products as unsafe. Beyond this tokenism, China has investigated and shut down 180 food factories for using banned chemicals. A new law has been drafted providing for severe penalties for

companies violating safety norms. And the head of the food and drugs administration has been executed for accepting bribes (\$850,000) from crooked companies.

So, the cost (and shame) of the export scandal has galvanized China to do what no amount of domestic consumer activism could: improve standards sharply across industries. The main beneficiaries will be Chinese consumers, not Americans. So, the export scandal is actually a huge blessing in disguise.

This should not surprise Indians, who have seen standards in several areas improve radically after India globalised. In the bad old days of self-sufficiency, the Indian auto industry emitted massive pollutants without a second thought. But competition with global producers in the domestic and export markets forced the Indian auto industry to adopt Euro emission norms. The courts too seized on the Euro norms to discipline the polluting

industries. The main beneficiaries are Indian consumers, not foreign buyers.

Indian capital markets are among the best in the Third World. Yet in 1990 the Bombay Stock Exchange was a den of thieves, where crooked brokers and companies rigged prices and duped small investors. One-tenth of all paper share certificates were forged. Trades were not settled for months.

But when India sought to attract foreign institutional investors, they complained bitterly, and demanded reforms. That was a major reason – the Harshad Mehta scandal was another – for reforming the stock exchanges, dematerialising shares, and producing the fastest rolling settlements in Asia. Thus global pressure raised standards, benefiting Indian investors much more than foreigners.

In the days of self-sufficiency, Indian companies cooked their books, kept profits black, and rigged their share prices up. But once foreign investors entered the Indian market, they marked down the price of dodgy companies while paying high prices for companies with good standards. For the first time, honesty actually paid. Companies found that keeping their profits white and paying taxes on them was good policy, since it enabled the companies to raise fresh equity at much higher prices. The impetus for change came from foreign investors, but the main beneficiaries were Indians.

The Institute of Chartered Accountants of India has been upgrading its standards to global norms. It will fully adopt global IFRS standards by 2011.

Banking standards were abysmal in the 1980s, and bank balance sheets were fairy tales. But after economic

reforms, Indian banks adopted Basel-1 norms, and are now moving towards Basel-2 norms. The need to be globally competitive has catalysed a drive for world-class quality.

Once, Indian drugs were reputed to be cheap but of dubious quality. The problem has not disappeared. But all the top drug companies want to become multinationals, and have raised their standards hugely. Indian hospital and research standards were once too suspect for global companies to risk clinical trials in India. But now standards have gone up, and Indian clinical trials have a decent reputation.

When I became a journalist in 1965, consumer surveys showed that three-quarters of all food products sold loose were adulterated, often with toxic materials. Today India has become a significant exporter of processed foods, and companies have to observe global standards. Some still cut corners, like their Chinese counterparts. But the more we export, and the more scandals we have, the better will be Indian quality and safety.

In one respect, we have failed miserably to globalise enough. In India, no inspector is executed for taking bribes, as happened in China. Why not? This is the sort of globalisation that even leftists will cheer.

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## SLUMPING STOCK MARKETS AND THE INEQUALITY DEBATE

29 August 2007

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The slump in global stock markets since July has wiped out an estimated \$5 trillion of wealth, five times the GDP of India. So, world inequality has fallen dramatically.

Are poor people across the world celebrating the great reduction of global inequalities? Are socialists celebrating increased equality? No, not at all.

But why not? For years, analysts have worried about rising inequalities in India. Rapid growth has sent the stock markets soaring, and several Indians have entered the Forbes list of top billionaires of the world. Simultaneously, 300 million remain below the poverty line. This stark contrast has evoked much outrage.

Prime Minister Manmohan Singh says that unless the poor participate in fast growth, uprisings could disrupt our nationhood – over 150 out of 600 districts are affected by Maoist violence. The same theme is echoed in a recent study of Asian inequality by the Asian Development Bank. The ADB chief economist has been widely quoted as saying that high levels of inequality disrupt social cohesion, and could lead to civil war.

If this were really true, then the stock market slump should have healed social tensions. An *Indian Express* story on August 12 estimated that the richest five Indians had lost more than \$10 billion in the previous fortnight. The total wealth lost by all shareholders was \$52 billion (Rs 210,000 crore<sup>1</sup>), almost equal to the GDP of Bangladesh.

So, inequalities in India have fallen dramatically. Not even the most draconian tax measures could have reduced the wealth of shareholders by \$52 billion.

But are the 300 million poor people of India celebrating? Are landless

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<sup>1</sup> A crore, an Indian numeral, is equal to 10 million.

labourers in Bihar delighted that the wealth of the Ambanis has suddenly fallen by billions? Are the tribals of Chattisgarh and Jharkand joyous that the Tatas have become poorer? Are illiterate dalit women, the most oppressed and powerless section of our population, ecstatic that the stock market slump has improved income distribution?

Of course not. And this has consequences for theories of social tension. Now that the stock market slump has significantly improved India's gini coefficient of wealth, will Maoist insurgents in Chattisgarh give up insurrection? Will ULFA<sup>2</sup> cease its depredations because of greater equality between the people of Assam and those of Dalal Street<sup>3</sup>? Will the militants in Kashmir become less militant because of an improved income distribution?

To even suggest this would be farcical. Yet that farcical notion is deeply entrenched in much socio-economic analysis. The millionaires of Nepal are deeply invested in Indian stock markets. Does the ADB think that their stock market losses, which have reduced inequalities, will ease tensions in the neglected Himalayan region of Nepal?

Economists focus on measures of inequality like the Gini coefficient. But ordinary folk have very different concerns. Bihar is the poorest state and Goa the richest, but the poor Bihari does not worry about the disparity. He knows that his travails are due to local politicians and mafia, not rich Goans. He is not interested in impoverishing the Ambanis, he wants to become rich

himself. He welcomes a booming stock market that might bring investment and jobs to Bihar.

Many analysts think society is happier when inequalities fall and unhappier when inequalities rise. Really? In an economic recession, profits fall much faster than wages, so equality improves. But do the poor enjoy a recession, with its unemployment and weak wages? Not at all. They far prefer an economic boom, even though profits rise much faster than wages.

People want more income, not better Gini coefficients. They are concerned with inequality only when they see some powerful people gaining at their expense. They don't grudge Sachin Tendulkar or Shah Rukh Khan their riches. Both these gentlemen are from families of modest means, and have become billionaires through talent. That makes them role models, not hate objects. They are examples of what ordinary Indians seek – a chance to become rich and famous themselves. They do not want a slice of Mao's China, they want a slice of Deng's China. They want the opportunity to rise.

The ADB review is dead right in its key conclusion: governments in Asia must do much more to improve equality of opportunity. In India, it is shocking that after six decades of independence and the spending of millions of crores, literacy is barely 65%, and most people who complete school cannot read simple paragraphs or do simple maths sums. It is outrageous that every village does not have a functioning school and health clinic; does not have electricity, telecom and a pukka<sup>4</sup> road; does not have access to effective rule of law or judicial redress.

This is the inequality that I keep complaining about. Instead of doing something about it, socialists point fingers at the rising wealth of Ambanis and Tatas, as though that is responsible for the sad plight of our villages. It would be as ridiculous to blame Tendulkar and Shah Rukh Khan.

The shocking denial of access to basic facilities at the village level institutionalizes inequality of opportunity, and prevents the poor from rising. Urban facilities provide some social mobility. But rural facilities are typically so pathetic as to become poverty traps.

For this, our netas and babus<sup>5</sup> are fairly and squarely to blame. These heroes of the left are the zeros that have ensured continuing inequality of opportunity, poverty and powerlessness. Their solution is to compete in offering caste-based reservations, not in providing the equality of opportunity that might make caste irrelevant.

I too am outraged that 300 million Indians remain poor. I am outraged not that a few Indians have become billionaires but that thousands more have not, for want of equality of opportunity. I look forward to an India with thousands of billionaires and millions of millionaires. I do not wish to give the poor a few doles, keeping them as objects of pity. I want to convert them to millionaires, to objects of envy.

<sup>2</sup> ULFA is the United Liberation front of Assam, a terrorist movement for secession.

<sup>3</sup> Dalal Street in Mumbai is the equivalent of Wall Street in the USA.

<sup>4</sup> A pukka road is a paved tarmac road, as opposed to a mud road.

<sup>5</sup> Netas and babus are Hindi words for politicians and bureaucrats respectively.

## THE PATH TO NOWHERE LEADS TO SUCCESS

18 June 2008

I was a gung-ho liberalizer when economic reforms began in 1991. At the time, a skeptical politician asked me which sectors would benefit most. I replied it was not possible to predict the winners. In that case, he sneered, why embark on a path with no destination?

The answer is clear today, now that India has averaged almost 9% economic growth for several years. This success required a path which, by design, had no destination. The reforms tore down the planned road and opened entry into a million possible roads, facilitating ideas that no planner had dreamed of.

Before 1991, no planner visualised a future economy excelling in computer software, business process outsourcing (BPO), R&D, or brain-intensive manufacturing. But deregulation plus global connectivity created a million new possibilities, and innovative risk-takers did the rest.

India is globally famous for computer software. Yet government policy hobbled this industry for decades. Narayana Murthy of Infosys says it took almost two years in the 1980s to get a telephone connection and a licence to import a computer. Politicians and trade unions opposed computerisation as a threat to jobs. The 1993 bank-union agreement, two full years after liberalization, nevertheless provided for bank branch computerisation at just 0.5–1% per year, meaning full computerisation would take 200 years!

Absent widespread computerisation, software engineers could not develop high skills locally. But Indians who went to the US became the whizz kids of Silicon Valley. “Body shopping” followed – foreigners hired Indians to work on software projects in the US. India’s software skills were honed in Silicon Valley and then shipped back. No planner could have planned this: it was the spontaneous outcome of enterprise and global connectivity.

Similarly, no planner could have created BPO. Nobody predicted in 1990 that thousands of foreign companies would move back-office and technical services to India. General Electric was the first to experiment with the idea. It succeeded so well that MNCs galore followed suit.

Initially, companies thought only low-tech jobs could be outsourced, but Indians quickly graduated to the most skilled tasks. Moody’s and Standard and Poor’s took a long time to upgrade India’s credit rating to investment grade, yet have shifted some of their own rating operations to India.

India has become a global R&D hub. Here too, General Electric led the pack. Renault-Nissan is partnering Bajaj to make a small car that can beat Tata’s Nano. The R&D has been entrusted by the Franco-Japanese giant to Bajaj.

India’s boom in brain-intensive manufacturing was unplanned. Most people thought India would follow the path of labour-intensive exports pioneered by East and South-East Asia. India failed dismally here, thanks mainly to rigid labour laws. But, to everyone’s surprise, India became world class in brain-intensive industries like pharma and automobiles.

Indian pharma is now a global player, and all top companies have become MNCs, acquiring companies across continents. This was made possible after India agreed to international patent rules, something the government opposed tooth and nail and was finally forced to accept in the Uruguay Round of 1995. This failure of planned strategy was the beginning of Indian success. Indian pharma companies initially feared they would be wiped out, but soon found that integrating with the global economy was an opportunity, not a threat.

The auto industry has become world-class. Why? Auto companies need constant new models and improvements to compete. Auto MNCs in India found that Indian engineers could do this quickly and cheaply. An auto component giant like Delphi takes three months to go from a new concept to prototype to commercial production. Bharat Forge claims it can do this in one month. Such skills have made it global No. 2 in auto forgings.

When the economy opened up in 1991, many predicted that Indian companies would go bust or be taken over by MNCs. Nobody dreamed that one day Tata Steel would take over Corus, which was six times as big; or that Tata Motors would acquire Jaguar and Land Rover; or that Hindalco would take over Novellis, which was several times its size.

How did Indian minnows take over global whales? By borrowing massively from abroad. But such massive borrowing was prohibited by government policy till recently. The curbs aimed to thwart irresponsible borrowing. No planner realized that the curbs also thwarted Indian takeovers of global giants.

The government has long discouraged private initiatives in education, and education for profit is banned. Supposedly non-profit private engineering colleges have come up, often owned by politicians, and often collecting illegal fees under the table. Their educational standards are spotty at best. Yet, these unplanned colleges, warts and all, have driven brain-intensive manufacturing. Government colleges produce only 45,000 engineers a year. Private colleges produce nine times as many.

For decades, telecom was a government monopoly. In the 1980s, the government vetoed proposals for cellphones, saying they were a rich man's toy. No planner anticipated that after liberalization in the 1990s, cellphones would be bought by everybody from rural shopkeepers to urban carpenters. Nobody foresaw that Indian companies would create the cheapest calls in the world, attracting 8–10 million new subscribers per month.

No planner saw any comparative advantage in wind energy. Indian wind speeds are generally low. Yet Tulsī Tanti, a textile manufacturer, launched Suzlon to make windmills. He is now world No. 5 in windmills.

Essel Propack has become the world's top producer of laminated plastic tubes (for toothpaste, drugs and cosmetics). Nobody planned this. Subhash Chandra, a rice merchant, was looking at an international fair for plastic packaging for rice. The plastics dealers told him, by the way, that laminated plastics were replacing aluminium tubes for toothpaste. This accidental discovery helped transform Chandra from humble rice trader to world No.1 in laminated tubes.

One of my favourite posters says, "Some people look at things as they are, and ask why. But I dream of things that never were, and ask why not." India has succeeded by becoming a place where people can think of things that never were, ask why not, and then just do it.

# Tyler Cowen

So We Thought. But Then Again... | *New York Times* | 13 January 2008

Freer Trade Could Fill the World's Rice Bowl | *New York Times* | 27 April 2008

This Global Show Must Go On | *New York Times* | 8 June 2008



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*The following excerpts are the first paragraph(s) of each article submitted by Tyler Cowen.*

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## SO WE THOUGHT. BUT THEN AGAIN...

13 January 2008

Harry S. Truman once said he wanted to talk to a one-armed economist, “so that the guy could never make a statement and then say: ‘on the other hand.’” Yet economic knowledge continues to progress in unexpected ways. Here are a few of the things we learned in the last 12 months:

### Revising the Chinese Economy

Many of the prices in China had not been accurately measured since the late 1980s; in 2007, new data indicated that food, rent and other items had become a lot more expensive than had been accounted for in official measurements. Higher prices, of course, mean lower Chinese real wages and a smaller size for the Chinese real economy.

### It's not just the lenders

There has been plenty of talk about “predatory lending,” but “predatory borrowing” may have been the bigger problem.

### In music, hardware rules

In 2007, album sales fell 15.3 percent, compared with 2006, itself a slow year. Even if sales of 10 singles are counted as one album, sales were still down 9.5 percent.

### Lethal cold fronts

Spells of extreme cold kill over 27,000 Americans each year, or about 700 people each very cold day.

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## FREER TRADE COULD FILL THE WORLD'S RICE BOWL

27 April 2008

Rising food prices mean hunger for millions and also political unrest, as has already been seen in Haiti, Egypt and Ivory Coast. Yes, more expensive energy and bad weather are partly at

fault, but the real question is why adjustment hasn't been easier. A big problem is that the world doesn't have enough trade in foodstuffs.

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## THIS GLOBAL SHOW MUST GO ON

8 June 2008

The last 20 years have brought the world more trade, more globalization and more economic growth than in any previous such period in history. Few commentators had believed that such a rise in trade and living standards was possible so quickly ... Despite these enormous advances, however, there is a backlash against globalization and a widespread belief that it requires moderation.

# A. Barton Hinkle

**Government Can Solve the Food Crisis, Too** | *Richmond Times-Dispatch* | 13 November 2007

**Lou Dobbs, Please Call Your Office About the Latest Outrage** | *Richmond Times-Dispatch* | 19 February 2008

**U.S. Policy Is Soaking Taxpayers, Starving the World** | *Richmond Times-Dispatch* | 6 May 2008



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## GOVERNMENT CAN SOLVE THE FOOD CRISIS, TOO

13 November 2007

My fellow Americans,

I am honored to be here today at the Springfield Homegrown Organic Produce cooperative. I want to thank Artemis, Moonflower, Willow, and the rest of the S.H.O.P. cooperative board of directors for their invitation today, as well as for the lovely basket of soy nuggets, patchouli, and spirit beads. I cannot think of a better place to be to discuss America's food-care crisis, or to unveil my five-point comprehensive plan for solving the problem.

It is a disgrace that although we live in the richest nation in the world, there are still children who go to bed hungry in America. Statistics can provide only a snapshot. But the statistics tell us that 38 million Americans are considered "food insecure," meaning they are only one, two, or three paychecks away from

having to choose between buying food and buying something else.

Food is essential to life itself, including the life of the children, who are our future. I want to tell you about Judy Williams, who is in the audience today – Judy, would you stand up please? Judy's husband Bob lost his job of 30 years when the Betamax factory he was working in closed down. Without a steady source of income, the bills quickly piled up, and Judy and Bob were forced to cancel their cable TV service and their cell phones in order to buy food. That is just one small illustration of the tragedy of our current food-care system.

It doesn't have to be like this.

Food is simply too important to be left to the whims of the free market. It is long past time for our country to find a better way – a way that costs less, offers more, and does it all by sticking it to the evil corporations of Big

Grocery that have rigged the system against the American people.

But change cannot happen overnight. And so, after months of consultation with a secret group of more than 2,500 food-care policy experts, I have devised a 63,700-page, single-spaced plan that will transition our country to a national system of single-payer food care, in five simple steps.

First, my plan begins by establishing tax incentives for employer-provided food coverage. Instead of buying food directly, as we do now, American families will be able to choose the groceries they want, and their employer-provided coverage will pay the bill at the checkout line. You will pay only a flat deductible or insurance copayment no matter how many grocery carts you fill up, so you will no longer have to worry about the cost of the food you choose to buy. This will help control prices.

Next, my plan mandates that employer-provided food insurance must be comprehensive. It is simply wrong for providers to anticipate denying coverage of exotic fruits like kiwi or mango simply because they cost more when they are not in season. Nor should Americans who are lactose-intolerant be forced to forgo dairy products – so my plan makes sure that employer coverage will provide them with lactose-free alternatives. The same goes for individuals who can eat nothing but gila-monster eggs and bird’s-nest soup. Taxpayer-subsidized food insurance must not be allowed to control costs through the denial of coverage.

Some have argued that such mandates might increase the percentage of GDP we spend on food. I disagree. Nevertheless, because of a single sad anecdote I read in the paper the other day, my plan expands government involvement even further by offering direct, taxpayer-funded food coverage to families earning up to 1,800 percent of the federal poverty level, or \$373,000 for a family of four. We will pay for this by raising taxes on the rich.

Step four of my plan, called Modified Choice, will create a system of national food care centers – public groceries, in other words – run by farmers and grocers on the government payroll. Everyone will pay into the public-grocery system, even those who choose to shop at a private grocery store. Each public grocery will be run by a local public-food bureaucracy, and the quality of individual public groceries will be determined by standardized testing.

Families will be assigned to a public grocery store near them and forbidden to go shop at a different public store. This will help ensure that their

assigned store remains attentive to their needs. If a particular public store performs poorly, this will be considered proof that its employees should be paid a lot more.

The final phase of my plan, called Total Choice, will require everyone to shop at a public grocery store. It will ration scarce groceries through long lines instead of high prices. No one will have to pay directly for any food they consume; they will simply present their food-rationing card at the checkout counter and take whatever is given to them. Farmers and grocers will get paid the same whether they produce groceries for their customers or not.

I am sure you will agree with me that this will solve all our problems.

Thank you.

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### **LOU DOBBS, PLEASE CALL YOUR AGENT ABOUT THE LATEST OUTRAGE**

19 February 2008

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Fair-trade opponents of outsourcing and offshoring have another reason to march in the streets today. Yet another company is sending a factory – and hundreds of jobs – overseas. The greedy corporate overlords, in thrall to the almighty dollar, have again shown complete indifference to the economic well-being of their own country and countrymen.

Fortunately for Virginians, their country is Poland – and the jobs are coming here.

The company, called Com.40 Ltd., is based in Nowe Skalmierzyce and supplies mattresses to IKEA. It will shell out more than \$36 million to build a

new factory in Danville, which will employ more than 800 workers.

Three cheers for offshoring!

Critics of free trade scream bloody murder whenever an American firm builds a factory overseas. CNN’s Lou Dobbs, who calls out sourcing “a direct assault on hard-working middle-class men and women in this country,” might yell the loudest. But he is far from alone. Barack Obama also laments the practice, for instance. John Kerry was fond of denouncing “Benedict Arnold” CEOs. Yet the critics never seem to notice – let alone object – when a foreign firm builds a factory over here.

The fair-trade brigade always assumes companies will move factories wherever labor is cheapest. But that isn’t the case, as another recent announcement – Rolls-Royce’s plans for a plant in Prince George – attests.

In fact, wages are just one consideration. Another is technical know-how (which partly explains the Rolls-Royce move). If you were a high-tech manufacturer, would you rather pay high wages to employees who make microchips that work, or low wages to employees who make faulty microchips you can’t sell? Another hugely important factor is productivity: Would you rather pay 100 foreigners \$10 a day to make 50 widgets – or pay 10 Americans \$100 a day to make 5,000? America leads the world in productivity on both a yearly and per-hour basis: Per worker, U.S. annual gross domestic product is about \$64,000. Compare that to, say, a Chinese industrial worker – who produces less than \$13,000 worth of GDP in a year.

Taxes, regulation, the supply chain, and lots of other issues enter the mix as

well. America can boast some strong competitive advantages in many of these areas. And it pays off: According to the Organization for International Investment, during the past decade and a half the outsourcing of American manufacturing jobs to other countries increased by 23 percent. But the outsourcing of manufacturing jobs by other countries into America grew by 82 percent.

There's another overlooked question about "offshoring": If we can increase prosperity by preventing companies from moving jobs to another country, then presumably we could increase prosperity even more by stopping them from moving jobs to another state. For that matter, why shouldn't we try to stop companies from building factories in other cities? Just imagine how rich we all would be if everything that was consumed locally had to be made locally. In fact, according to the logic of protectionism, the surest way to make everybody rich is to forbid trade entirely: Make everyone sew their own clothes, grow their own food, make their own furniture, and so on. That should keep workers busy.

This raises a related point – technology. A job lost to new machinery is just as lost as if it moved overseas. Those who object to offshoring because it supposedly hurts American workers also ought to agree with the Luddites of 19th-century Britain, who protested the introduction of mechanical textile looms.

If you want to increase employment in the construction trade, get rid of all the D-9 earthmovers and start handing out shovels. Even better, confiscate all the shovels and make workers dig foundations with teaspoons. That might temporarily boost employment

– but would it really help the economy?

Technological advances free up labor for more productive pursuits. As Bryan Caplan of George Mason University wrote recently in *Reason*, that's precisely why people like it: When you buy a washing machine, you don't lament the fact that it frees up your time for other things. In 1800, likewise, 95 out of 100 Americans worked in agriculture or agriculture-related jobs. Today, the figure is 3 percent. So why isn't there 97 percent unemployment? Because new opportunities arose, made possible by free trade at home and abroad.

By now, the notion that free trade is more beneficial to everyone in the long run is about as indisputable as evolution. In a way, free trade is evolutionary: The most competitive companies and technologies succeed. Also like evolution, free trade can sometimes be messy, disruptive, and unpleasant. But – yet again like evolution – it sure beats the alternative.

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## U.S. POLICY IS SOAKING TAXPAYERS, STARVING THE WORLD

6 May 2008

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A perfect storm of global circumstances has formed to create disastrous spikes in food prices. Numerous variables affect the equation: high demand in China, persistent drought in Australia, resurgent protectionism in Kazakhstan, capital flight from the housing sector to commodities markets, and more.

In response, President Bush has proposed another \$770 million in

global food aid for the next fiscal year – which, combined with other increases the administration has proposed, would bring the total to nearly \$5 billion for 2008 and 2009. Democrats predictably carp that it's far too little.

They're wrong. It's far too much.

Don't misunderstand: The desire to alleviate current pain caused by world food price hikes is commendable. But there is a smart way and a dumb way to go about it. Federal food aid is the dumb way.

Those who want to help in a smart way should take out the family checkbook and send a healthy sum to one of the many non-governmental organizations devoted to such worthy causes. Contributors might want to start with CARE, one of the largest charitable organizations – which last year turned down \$45 million in federal financing.

Care did so because, it said, such aid is woefully inefficient – and winds up hurting some of the very people it is meant to help. How? By dumping heavily subsidized U.S. commodities on poor nations such as Kenya. The result: Farmers in those countries cannot earn a living. Without a self-sustaining agricultural sector, poor nations end up with their hands perpetually outstretched, trapped in a vicious cycle of dependence on charity.

Kenyan economist James Shikwati warned the world about that problem three years before global food prices began rising: Under the current system, he told *Der Spiegel*, "Several thousand tons of corn are shipped to Africa, and at some point this corn ends up in the harbor of Mombasa. A portion of the corn often goes directly into the hands of unscrupulous

politicians who then pass it on to their own tribe to boost their next election campaign. Another portion of the shipment ends up on the black market where the corn is dumped at extremely low prices. Local farmers may as well put down their hoes right away; no one can compete with the U.N.'s World Food Program. And because the farmers go under in the face of this pressure, Kenya would have no reserves to draw on if there actually were a famine next year. It's a simple but fatal cycle."

"Africans," Shikwati said, "are taught to be beggars and not to be independent. In addition, development aid weakens the local markets everywhere and dampens the spirit of entrepreneurship that we so desperately need." In short, Shikwati said, developing nations must move from welfare to work.

When they do, good things happen. Consider Walter Otieno, a Kenyan farmer. Four of his children died from measles before he began growing sunflowers and selling them to a company that processes them for their oil. But income from those sales enabled him to lift his family out of poverty and open a small general store. He probably could have lifted it higher if soybean oil were not dumped onto the market.

But for African nations to move from welfare to work, American farm interests will have to do so as well. That's a tall order. Federal farm and energy policy create their own perfect storm for taxpayers and consumers: Americans alone paid a hidden "food tax" of \$5 billion in 2006 through farm price supports, for instance. The federal Conservation Reserve Program artificially increases scarcity (thereby hiking prices) by paying farmers to let

land lie fallow. So Americans end up paying twice – once through taxes that fund direct payments to farmers, and a second time at the checkout line.

Then there is the great ethanol debacle: The federal farm bill lowers the federal subsidy for ethanol by a nickel, from 51 cents per gallon to 46. That's not likely to make much of a dent in the problem. As Washington has realized too late, the subsidy – along with federal mandates that require increasing percentages of ethanol in the U.S. fuel mix – have created a huge incentive for farmers to stop feeding people and start selling corn for ethanol. (They're also shifting acreage from rice, cotton, and soybeans to grow more corn for cars.)

Talk about a perfect storm: Taxpayers shell out big bucks for ethanol subsidies that drive up world food prices, and Washington then taxes Americans again to fund food aid that ruins farmers who could feed their countrymen if given half a chance.

Washington doesn't need to soak the American public to help out the foreign poor. It just needs to take Shikwati's advice: "For God's sake, please just stop."

# Fraser Nelson



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## BROWN'S FLAWED WELFARE POLICIES REAL CAUSE OF NORTH-SOUTH DIVIDE

8 August 2007

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No city today compares to the phenomenon that is London. The closest analogy I have found is a description of Berlin in 1927, a time where it was booming and when most of its people were from somewhere else. "This city exists outside Germany, outside Europe. It is its own capital," wrote the novelist Joseph Roth.

Ditto London today. A third of those who live there were born not just outside the city, but outside Britain. It may be England's largest city, but it is no longer really English. And nor is its economic success.

Much of the diagnosis of Britain's economic health is done from organisations based in London. It is tempting to peer out the window at the explosion of human capital and resources and declare that the

economy has never been so good, as some of the less prudent City economists are sometimes wont to do.

In truth, Britain has suffered a pedestrian economic performance since Labour came to power: most OECD countries have fared better from the expansion of the globalised economy. The UK figures also mask a huge disparity between London's boom and the atrocious performance of the rest of the UK.

This "North-South divide" crops up from time to time in British politics – emphasising the widening prosperity gap between London, the East of England and the South East – and the rest of the country. The Institute for Public Policy Research (IPPR), a left-wing think tank, this week released a report showing the gap has never been wider – and complained that central government is not formally committed to reducing it. Touchingly, the IPPR suggested there could be higher regional economic growth if only Whitehall would set a target for it.

If only. Scotland has had such targets for years. Economic growth has been declared its top priority – yet if Scotland were an independent nation, its economy would have ranked as the fourth-worst performer in the developed world between 1997 and 2005. It grew by a cumulative 18% during those years while its Celtic cousins in Ireland expanded their economy by 69%. London's economy expanded by 37%. But the figures were dire in the North East (17%) Wales (18%) and the North West (19%). The eurozone area grew by 22% – woeful, but a better performance than that enjoyed by most of England.

It is growing harder to talk meaningfully about a United Kingdom. A generation or two ago, these islands could be said to be culturally analogous and economically comparable. The great cities – Liverpool, Manchester, Glasgow, Birmingham – each had its own economic centre of gravity. But as the Joseph Rowntree Foundation reported last month, the rich no longer stay in

such places. They head to London to enter its melting pot and grow even richer.

The allure of the South is not new. Samuel Johnson famously observed that “the noblest prospect which a Scotchman ever sees, is the high road that leads him to England”. What has changed is that this now applies throughout the UK, and the noblest prospect an Englishman sees is the path that runs to London. Household income per head was £17,200 after tax and interest in Inner London in 2005, 30% higher than the UK average and 52% higher than in the West Midlands.

So what’s going on up North? In a word, government. The normal response would be to set up tax havens in the most deprived places, a formula that makes buildings spring from the desert in Nevada and Dubai. But instead, Labour has adopted a leftist approach – it takes money from the South of England, and shovels it up North as if this righted the wrong. It does this in two ways: welfare payments and a massive expansion in the public sector payroll.

If you add up those working for the state and those in receipt of its benefits (excluding the ubiquitous tax credits) you begin to appreciate the true extent of the state payroll. Just over a year ago, I compiled a study to find the extent to which Labour has got the vote bought up. In Liverpool Walton, 68% of the electorate either receives key benefits or is employed by the state. In Birmingham Northfield, it is 65%; in Manchester Blackley 63%; in Newcastle upon Tyne North 63%. These statistics are more redolent of the Warsaw Pact economies than today’s booming Britain.

How can Liverpool hope to function as an economy if a sickening 26% of its workforce is on out-of-work benefits? The same picture holds true across several of Britain’s largest cities. In Glasgow, it is also 26%; in Manchester 23%; in Birmingham 22%. Yet head south, and this figure shrinks. It is 11% in Westminster and Lambeth, boroughs of London. In Kingston-upon-Thames, it is 8%. In Woking, a commuter area, it is as low as 5%. This is the true North-South divide: the difference in people being paid not to work.

So the proceeds of turbo-capitalist London are being used to create a level of state dependency in the British regions reminiscent of the Soviet era. For as long as this continues, the regions will lose their most aspirational people and be disfigured by government policies that have socialised vast tracts of the national economy. Having a quarter of the workforce on benefits may share some of the South’s wealth with the North. But it does not, and never will, close the prosperity gap.

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## CAMERON MEANS BUSINESS ON WELFARE: THE TORIES ARE THE RADICALS AGAIN

31 October 2007

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There is something about impending doom which focuses the mind. That is why the Tory conference in Blackpool was perhaps the most effective brainstorming session in the party’s history – albeit inadvertently. David Cameron arrived facing an election. He left the northern seaside resort having scared Gordon Brown away from going to the polls – and, in the process, launched a policy strategy more radical than he had ever dreamt he would be

pursuing. The proposal to raise the inheritance-tax threshold to £1 million grabbed all the headlines and seems to have struck a chord in the Labour marginals that worried the PM very much. Much less attention was paid, however, to a much more radical proposal: namely, to bring the ‘Wisconsin welfare revolution’ to Britain.

He first slipped this out in a television interview in Blackpool, and then repeated it for good measure in his conference hall speech. The invocation of Wisconsin – a state in America’s upper Midwest – would have passed over the head of most people in the Winter Gardens, let alone in the country. The word triggers few images, if any: snowploughs, badgers and perhaps bicycle lanes. But to policy wonks, it is the home of the most aggressive and successful welfare reform programme the world has ever seen – which became the template for Bill Clinton’s federal reform. And this was what Mr Cameron seemed, quite explicitly, to sign up to.

Even now, members of the shadow Cabinet are not entirely sure if he misspoke. Didn’t Tony Blair try all this in 1999, and wasn’t he forced to drop the strategy after disabled people chained themselves to the No. 10 railings in protest? Isn’t welfare reform so toxic an issue that even Baroness Thatcher didn’t dare to touch it? And why, precisely, would the famously risk-averse David Cameron, who does not dare touch the health service, decide to go straight for the root canal of the British welfare state?

Yet the debate on welfare has changed fundamentally since Mr Blair threw his hands up in despair. Now, there is much wider discontent with the benefits system and the jobless total. It

emerged this week that, since 1997, most new jobs have been taken (or created) by immigrants. When New Labour started, there were 5.7 million on out-of-work benefits. Now, the figure is 5.4 million – hardly any change. ‘British jobs for British people,’ Mr Brown’s most fatuous slogan, is, as it happens, the precise opposite of what Labour has done.

So Mr Cameron has come to believe that the connected issues of poverty, welfare dependency and idleness, far from being hostile territory for Conservatives, is terrain where they can take on and defeat Mr Brown. Welfare reform, he believes, encapsulates both the weaknesses of Mr Brown’s ideas and the strengths of his own. It is an area of policy where, he believes, the hitherto vague Cameroon themes of ‘general wellbeing’ and ‘social responsibility’ can be made vivid, dynamic and relevant to people’s day-to-day lives. And it is an area of policy where he can offer a genuine and palpable alternative to Labour’s failure.

The first task will be to highlight Labour’s dismal record. Mr Cameron is slowly grasping that he who chooses the terms of debate tends to win. After 18 months of using Mr Brown’s language (saying ‘investment’ rather than ‘spending’) he is setting his own terms. And when welfare policy is measured according to the level of joblessness – as opposed to ‘equality’ – the picture becomes devastating.

Include all the hidden unemployed (lone parents and those on incapacity benefit) and it soars to five million: a figure which dwarfs the three million figure that stuck to Baroness Thatcher like napalm. The proportion of those on out-of-work benefits, 15 per cent of the population, is even higher in the cities. In Birmingham, one in five is on

benefits. In Glasgow, Liverpool and Manchester the figure rises to one in four. In a booming economy, such statistics are absurd, as well as unforgivable.

Why should this be so? After all, there are so many jobs that 1,540 immigrants settle here every day to fill them. But in this case, as so often, we come against the great clunking fist of unintended consequences. If the right benefit combinations pay more than work, millions will rationally choose welfare – and are therefore ushered by perverse incentives into a life of poverty. And nowhere in Europe do more children live in such households. A generation trap is in operation.

Navigating the welfare system is, for millions, a way of life. The New Deal (which the Tories would abolish) has done nothing to youth unemployment, greater now than when Labour came to power. Nowhere in Europe are there longer-lasting benefits for lone parents. And nowhere in Europe are there more teenage pregnancies (five times as many as Holland). When Mr Cameron talks about family breakup, it is his code for lone parenthood – which even the American centre-left came to see as a major cause of poverty.

The detail of Cameron’s plan is not yet settled but the ethos is clear: it will involve ‘tough love’ and denying welfare to people who turn down a suitable job. Iain Duncan Smith, one of the unexpected stars of the Blackpool conference, is being brought back to help, and many of the ideas for welfare reform are being drawn from his seminal Breakdown Britain report. It is clear that the approach will be revolutionary, breaking with the European concept of entitlement. Rather than tackling poverty per se,

the focus will be on tackling the behaviour which leads to poverty – namely worklessness, educational failure and family breakdown.

Mr Cameron is much taken by the work of William Galston, a political theorist behind the Clinton-era welfare reforms. Galston identified three steps to escaping poverty: finish school, marry before having children and avoid teenage pregnancy. Among those who did all three, only 8 per cent were poor. Of those who did none, 79 per cent were poor. This, for Mr Cameron, was a rare example of his ‘social responsibility’ slogan come alive: here was strong evidence that what counts is people’s own life choices and behaviour, rather than clumsy government intervention which so often compounds the problem.

Mr Brown’s approach to poverty is purely financial, and is seen through a strikingly narrow prism of average income, determined by rigid thresholds set out on spreadsheets. Mr Cameron’s approach will be more ‘holistic’, and is based on restoring the dignity of work. Less about GDP, as he likes to say, and more about GWB – ‘general wellbeing’. And rather than state control (running the welfare system from Whitehall), he would have separate private agencies competing to run the welfare systems, paid by results according to how many they get back to work.

And just as Mr Cameron’s school reform policy comes from Sweden, the most socialistic country in the free world, his welfare reform hails from Wisconsin, historically one of the most left-wing states in the Union. This is no accident. It was the American Left which grasped that traditional welfare was actually locking people into poverty, and decided to fight it not by

raising incomes through benefits but by cutting welfare rolls.

It was a Republican governor, Tommy Thompson, who started the first Wisconsin welfare reform on his election in 1987. The founding principle was that everyone who could work should do so. People were assessed for the type of work they could do, even if menial park-sweeping tasks, and placed in subsidised jobs. If they did not turn up for work, their welfare was docked. The concept of welfare as an entitlement, as something-for-nothing, was ended for good.

Thompson cut benefit rates, but used the saved money to introduce new benefit schemes. Those taking work placements had their childcare and commuting costs subsidised. New demands kept being introduced. Parents, for example, would lose benefit if their child played truant – a scheme designed to stop the welfare habit being passed down the generations. There is ample scope for such demands in Britain, where one in five children lives in a household with no earned income.

The effects of Wisconsin's tough love were extraordinary. Wisconsin's welfare rolls had fallen by 82 per cent by 2001, by which time the state had become used by the Clinton presidency as a template for America and the country as a whole had reduced its welfare recipients from 14 million to less than five million. The type of fall which ministers say is impossible for Britain had been enacted in a few years. When welfare stopped offering something for nothing, it lost its appeal. People chose work instead. Poverty rates among black children fell to the lowest since records began. Like Britain, America had declared work to be the best form of welfare. But unlike Britain, they legislated for it.

But how much of this could be imported to Britain? It is the culture, more than the size, that's the issue. The Wisconsin project worked because it answered a clear public demand. In the past half-century, Britain's tolerance for huge welfare spending has been greater, the stigma of accepting benefits much smaller and overall public perception of the problem generally dimmer. The Brown government's 'let them eat tax credits' approach is only now beginning to come undone. Welfare reform has worked best around the world where the old system was perceived to be in crisis. Britain, alas, has lacked this sense of urgency.

Yet much has changed since Mr Blair backed down in 1999. The problem of welfare ghettos is growing more acute, and more obviously so, spawning gang warfare and endemic criminality. Jonathan Matondo, the 16-year-old boy shot dead last month by another teenager in Sheffield, was killed in one of the most welfare-dependent areas in Britain. Violent crime goes hand in hand with male joblessness (itself at an all-time peak). The Conservatives could plausibly argue that such ghettos are not just a waste of human potential. They are Petri dishes where social malaise festers.

Mass immigration now makes it impossible to argue that there are not enough jobs in Britain. Ministers say the 'skills agenda' is the solution, but the bulk of the immigrants arriving are unskilled and still finding work. The Labour and Tory party's respective preparations for the election that never was uncovered mounting public anger over welfare, especially in council estates where working families resent the fact that their welfare-dependent neighbours seem better off and appear to be able to afford longer holidays. A

sense of deep unfairness is starting to take root. Britain is a tolerant, decent country, but there is a growing impatience with those who seem to exploit the rules rather than observe their spirit.

Politically, too, the sands are shifting. Labour has accepted that it will miss its target of halving child poverty by 2010. Sure Start nurseries for the poor are proving an expensive flop. The idea that the solution to poverty is to give more resources to the needy has been tested to destruction. Yet this remains Mr Brown's immutable creed (and that of the anti-poverty pressure groups who test his performance in public). It seems we can already write the epitaph of this government: that Labour fought poverty – and poverty won.

But poverty lost in Wisconsin. And in promising to re-enact the battle here, using the same plan of attack, Mr Cameron is undertaking his boldest mission yet. The electoral pressure-cooker of Blackpool may have forced him to make the leap, but now that he is on the other side he seems comfortable. It is a better place from which to take on Mr Brown: hugely ambitious, yet in tune with the times. And there are few better ways to unnerve the PM than to claim, as Mr Cameron now does, that only the Conservatives have the strength, energy and ideas to make poverty history in Britain.

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## DAVID CAMERON MUST FREE OUR SCHOOLS: PARENT POWER WILL DO THE REST

18 June 2008

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If David Cameron forms the next government, a straightforward prize

awaits him if he moves fast enough. He can be the Prime Minister who transformed English schools by adopting the education revolution implemented from Chile to The Netherlands. It requires no effort, or even competence, on his government's part. Just a well drafted pledge to fund any new independent school that wants to set up on its own. The sum would be the state school average: £6,000 a pupil in 2010. Then he can watch parent power in action.

This sounds too naively simplistic. That is precisely what the Swedish government thought when it introduced the Free School policy in 1991. This is a gesture, it was argued, but parents will not bother to set up their own schools. To the astonishment of those newly elected conservative ministers, new schools crawled out of the woodwork. First came specialist primaries such as Steiner Waldorf method and Montessori. Then, villages threatened with losing their local school (as 100 English villages are today). Finally, the profit-seeking school companies.

If this can happen in Sweden, the most socialistic country in the free world, it can work even faster in England. Consider the demand. This is a country where atheist mothers line church pews with their under-fives praying only for admission to the neighbouring primary. Obscene premiums are paid for houses in the right catchment areas. Polls show that half of parents would send their child to an independent school if they could afford to, and those who can't go to extraordinary measures.

Much of the opportunity before Mr Cameron lies in enacting what Tony Blair failed to do. The ex-PM wanted a new breed of autonomous "trust

schools", but failed to draft his legislation properly. Power was left with local education authorities (LEA), which use various tools to protect their monopoly control of schooling. Planning permission is denied, and insurmountable regulatory hurdles introduced. So Mr Blair's plan was stillborn. English Free Schools can succeed only if they are licensed from Whitehall and fully protected from LEA control.

This requires a leap of faith on the next government's part. A Tory administration will be unable to say how many of these new schools there will be, or what format they will take. The Swedish example shows a demand for smaller schools of 200 to 300 pupils, against the Grange Hill model preferred by Labour, now averaging more than 1,000 pupils. They may have limited sports and science facilities, but this will be a sacrifice parents must be allowed to make. If they want boutique school with modest facilities but a strong ethos, so be it.

Mr Cameron is, in theory, proposing much of the above. Yet he has so far said remarkably little about a policy he produced during his near-death experience at the party conference in Blackpool last year. There is almost total ignorance about his intentions, not just among the public, but also his own MPs. I had to explain it recently to a shadow cabinet member. "If that's our policy, it sounds quite good," he said. "But no one has told me about it."

Perhaps Mr Cameron is keeping quiet about the scheme, so as not to alert the unions. But his silence could be self-defeating. It will take at least two years for independent education providers such as Absolute Return for Kids and Cognita to plan their

expansion under a new government. They need to know the Tories are serious, and that they can open their first Free Schools by autumn 2011. If Mr Cameron gets this right, they will spread quickly here as they did in Sweden. This could be the policy that wins Mr Cameron his second term.

But word must spread now. If a Church wants to start a new primary, it needs a Tory government and a promise from shadow ministers to provide the £6,000 per pupil. Congregations would then have a palpable reason to want a Cameron victory. The appalling deterioration in state education is a national emergency and must be treated as such.

Labour's objections to a Free School scheme simply underline its potency. Ed Balls, the Schools Secretary, says Free Schools would be "unplanned" by ministers, as if this were a self-evident absurdity. Unpopular schools would face ruin, he says, while threatening to close them himself. Teachers will be poached, rather than sacked, as their career options multiply. The Tory plan should guarantee a level playing field, with a ban on academic selection or parents paying extra fees. Choice is far more powerful than selection as a tool of social mobility, the quintessential Tory mission.

Mr Cameron has, alas, handicapped himself by refusing to let schools make a profit. As Sweden shows, the profit motive is the fastest way of matching new schools to the pupils in deprived neighbourhoods who need them most. For-profit schools now make up two thirds of Sweden's 1,550 Free Schools. When they have a waiting list, they open a new school. Our schools are happy with people in queues. This is why Swedes regard the profit motive as the best guarantor of social justice.

But it is, in my view, the single most powerful reform that Mr Cameron will introduce in his first term. If he prevaricates and passes legislation in his second year, he will have lost the momentum and send out the message that he is not serious. Like many prime ministers, Mr Cameron may be tempted into the delusion that meaningful changes can be made by Whitehall edict. He will soon learn that power over schools rests not in Whitehall, but with the LEA barons who saw off Thatcher, Major and Blair.

should become the tsars. Then all else will follow.

That is what the Conservatives can change. Free Schools force power into the hands of the parents, and just a few can transform the state sector. Each new Free School will worry its nearest state-run rivals, which will realise that, if they don't improve, they will lose pupils and money. Then there comes a tipping point, where progress is driven not by ministerial diktat but parental pressure. This is the revolution.

Finally, the poor will benefit vastly more than the rich – who can choose schools now by either going private or moving to a better neighbourhood. Mr Cameron's aim must be to make sink schools extinct: a grotesque relic of failed Labour policies like the three-day week and rubbish piled high on Leicester Square. The money is there. All that it takes is the proper legislation, and leadership from Mr Cameron himself.

The Free Schools policy brings to life what Mr Cameron refers to as a “post-bureaucratic age”. To capture the imagination of the British public, he must say the next election will transfer power not from Labour to Tory, but from government to the people. Which is why his education must be based on a simple principle: that the parents

# Ashutosh Tiwari



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ASHUTOSH TIWARI is a Nepali citizen. In 2000, he assisted with the launch of a movement that freed 200,000 bonded laborers from debt bondage. Convinced that profitable businesses enabled the poor to take charge of their lives, he became a small business advisor. From 2001 to 2007, he worked with firms in Nepal and Bangladesh as an employee of the German Agency for Technical Cooperation (GTZ), and of the International Finance Corporation (IFC). In 2007, he joined Kathmandu's Himalmedia as its CEO – in charge of three publications and over 100 employees. A Harvard graduate, Ashutosh has written for *Nepali Times* since 2003.

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## PRESSURING THE PRESS

6 June 2008

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Addressing a public rally in the heart of Kathmandu last week, Maoist Party Chairman Pushpa Kamal Dahal declared, "We will no longer tolerate criticism as we have been elected by the people." In a tirade against Kantipur Publications he added, "They continuously criticised us before the CA elections, but now we have become the largest party." Applause greeted Dahal as he advised journalists from other newspapers to think twice before writing anything against the Maoists.

The following day, the Federation of Nepali Journalists (FNJ) responded: "These remarks from the chairman of the Communist Party of Nepal-Maoist, the largest political party in the CA, have raised serious doubts over the Maoists' commitment to free press." It asked Dahal to "make public his party's policy towards the independent press", as if what he said earlier was vague.

What puzzled me about this exchange was not why Dahal said what he did. Perhaps he was playing to the gallery. Perhaps he remains drunk on his party's victory. Perhaps he was testing the limit of what he could say in public. Whatever the case may be, since Dahal's party is on record for murdering and harassing journalists, I found his speech irresponsibly frightening. The FNJ's response was, as usual, tepid and mechanical.

What I found puzzling was why these young people, in their teens and early 20s – the very generation that has seen, experienced and benefited from the free Nepali press since 1990 – welcomed Dahal's remarks with such zeal. It's tempting to dismiss them as brainwashed Maoist cadres. But could it be that those who captain the FNJ and other donor-funded media entities are so used to reacting to the Maoists over the same issues, that they forget how poor a job they've been doing to remind the public why press freedom matters in the first place?

Instead of addressing the Maoist leadership, the FNJ should change its tactics, face the public and explain that press freedom is important on multiple levels.

First, freedom of press makes it easier to empower ordinary Nepalis, even those with no political voice. If the press makes it public how Dalits are ill-treated in certain villages, how migrant labourers are infecting their spouses with HIV, or how the cadres of a certain political party extort money from small businesses, it allows others to use social and political processes to stop the perpetrators from undermining other citizens' rights to enjoy their freedoms.

Second, it aids the flow of investment into the country. Nepal does not have a large capital base. To undertake large infrastructural projects, we need cash from abroad. But no investor wants to risk their money here if they cannot obtain independent third-party information, which is provided by a free press. A muzzled media means

vague information for investors, which in turn means fewer investment dollars, which translates into fewer jobs for Nepalis in Nepal.

And third, though it may seem obvious, freedom of press makes it easier for newspapers to be accountable to the truth. Putting the usual high-minded language about democracy aside, let us not forget that the Nepali mainstream media-scape is commercially competitive, and the currency that endures, for reputation and profits, is the verifiable truth that can be reported first. Just as open competition leads to higher quality and better outputs in other spheres of business, it also compels Nepali newspapers to keep their standards high.

Let's hope that next time Dahal makes threats against the press, the FNJ will have the wisdom to find out ways to influence the thinking of his rapturous audience.

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## WORK IN PROGRESS: LET THE RULE OF LAW BE THE KING IN THE NEW REPUBLIC

20 June 2008

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Two days ago, relatives and neighbours of Giri Prasad Timilsina, a civil servant, set up roadblocks and stopped traffic for hours in front of the Lalitpur Forest Office in Hattiban. Timilsina was accused of smuggling wood by Forest Minister Matrika Yadav. The Maoist Minister took the law into his own hands, detained Timilsina and got his ministry to throw him into a cell at Nakkhu jail. Earlier, Minister Yadav locked up LDO Danduraj Ghimire in his office toilet for alleged insubordination.

Last month, relatives and friends of Ram Hari Shrestha, a restaurant owner and community leader in Koteswor, called for a Kathmandu-wide strike to protest against Shrestha's abduction and murder by Maoist cadres. With few vehicles plying the roads and few firms open for business, the strike turned what would have been an ordinary working day into New Nepal's first day of complete shutdown in this valley of about four million people.

Similarly, last year, journalists were riled up when one of their own, Birendra Sah, was killed in Bara by Maoist cadres, apparently on charges of reporting stories on illegal logging. The ensuing protests went on for days, only to taper off after the government promised to provide one million rupees to Sah's widow.

Drawn from the headlines, these three events give out two signals. First, they continue to remind us of the shocking atrocities that Nepal's Maoist party is capable of committing time and again, despite numerous silver-tongued assurances to the contrary. Second, they make clear that when trouble occurs in some sections of our society, the courts, lawyers, and any notion of due process and the rule of law all take a distant backseat as the victims' friends see no alternative path to justice but to vent their rage on the street for days on end, thereby affecting the day-to-day lives of many others.

To be sure, both are worrying signs for the world's youngest democratic republic. But the second in particular tells us that unless we work hard to create and sustain institutions that run the hardware of democracy through the software of rule of law, no matter who we elect to represent us, ours will remain a regime marked by arbitrary

abuses of power. And when that's the case, those in power are likely to continue to kill, kidnap and harass without ever being challenged to first adhere to the legal norms that are there to protect ordinary citizens against the excesses of others.

There are several reasons why Nepalis prefer the street to the courts when their individual freedoms are under attack.

Newspapers routinely report how corrupt the courts are. The Nepali judicial system is arguably the least ethnically inclusive wing of the state. Until recently, any negative report about the judicial system was treated as a matter of contempt, with reporters hauled up in front of a judge to be fined and even imprisoned. Almost 90 per cent of the thousands of cases pending in the courts involve multi-year and multi-generational disputes over family and property ownership. Nepal's donor-savvy human rights communities are good at raising general platitudinous awareness about rights through workshops and seminars, but remain inhospitable to iconoclastic lawyers who can pursue justice on behalf of the wronged with bulldog-like persistence.

The best and brightest college graduates rarely think about attending law school in Nepal. And donor agencies offer short-term scholarships abroad on academically wishy-washy subjects such as peace studies and conflict studies without first helping to upgrade Nepali lawyers' skills on the nuts and bolts of contract, criminal, public and constitutional law. After all, who can really work to promote peace or reduce conflicts when one is hard-pressed to use what's available within the Nepali legal system to fight and win for individual rights under attack?

The result of all this is that we have a legal system, inherited and pretty much unchanged from the Panchayat days, to which hardly anyone turns for solutions when liberties are taken away. Is it any wonder that when problems arise, people either take matters into their own hands or launch street protests by burning tyres, throwing stones at moving vehicles, forcing highways and shops to close down, and then calling their shutdowns a success?

Recently, two Nepal-loving American lawyers successfully fought a case in an American court against their government. As a result of their legal victory, the US government was compelled to provide compensation to the poor families of murdered Nepalis who worked for the Americans at the wrong time in the wrong place—in Iraq in 2004.

Likewise, two years ago, a Nepali lawyer filed charges against the British government in London and won overdue compensation for ex-Gurkha soldiers. In both cases, the lawyers used the existing laws of the respective countries to argue for the rights of those hurt or neglected by the actions of those in power.

It was not seminars and talk fests that helped restore the rights and the dignity of the victims. It was the mundane but necessarily patient process of studying the relevant laws, filing lawsuits, and then doggedly following them through the processes of the legal system that helped.

How long do we have to wait in Nepal to see the day when we value the rule of law to such an extent that those whose rights are trampled rush not to the streets to burn tyres but to the

courts to fight to get what they are owed to as per the law?

Democracy is always an unfinished business. Thumping our chests about how democratic we are, or taking part in one street protest after another, hardly builds up the software for democracy.

Taking a hard look at Nepal's legal regime, improving it by filing cases that argue for the protection of individual rights, and then patiently if doggedly pursuing the cases to the finish would go a long way in restoring people's confidence in the hardware of democracy.

In future, the families of Timilsina, Shrestha and Sah should not have to take matters into their own hands, but be able to act in the belief that no one is above the law in Nepal. In our republic, let the rule of law be the new king.

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## UMPIRE OR PLAYER? THE GOVERNMENT CAN'T BE BOTH

27 June 2008

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Early this week, *Nepali Times* and Himal Khabarpatrika, organised a discussion session on the upcoming national budget with leading businessmen (yes, they were all men). The session turned out not so much about the budget as about what the businessmen want the government to do and be. They want it to make and enforce rules in a transparent and predictable manner. They want it to be an umpire in the competitive game of business. They do not want it to be both the umpire and a player as it often is in Nepal.

The rest, the businessmen said, they can do themselves: whether it's finding new business opportunities, or lining

up finances, or offering competitive services to urban and rural customers, or partnering with international firms to offer better products domestically and globally.

Should the new government, which is about to be formed in a few days by the Maoists, pay attention to what the businessmen want? Yes, as these three examples amply show.

Exhibit 1: In the late 1980s, India was not the country that enjoyed over eight per cent growth per year that we know of today. All business-related changes required bureaucrats' approvals, and India's then leading businessmen spent more time visiting politicians than customers. There was no such thing as the great Indian IT industry. By contrast, with guidance from foreign managers, Nepal-based IT programmers were already making and selling software abroad.

In 1992, some of them introduced email technologies, which they started selling commercially, even before Indian businessmen did the same in India. And in 1995, The Kathmandu Post became the first newspaper in Asia to upload its contents everyday for distribution on the worldwide web.

The dispersion and the use of these computer-enabled communication technologies grew in Nepal not because of directives from the Ministry of Communications but due to the ingenuity of Nepali businessmen who sought profits by offering new services that customers bought.

Fast-forward to 2008. The government controls all the licensing processes that go into the development of Internet-related infrastructure. What's more, to sell Internet-services, it competes for customers with private-sector players.

No wonder with the government's playing the role of both the controller and a player with advantages, its attention is diluted, and its pet project, the so-called IT Park, grows grass, not software, in Banepa. Today, the vast gulf between the achievements of the Indian and the Nepali IT industries is plain for all to see. As we all know, the government mostly stayed away from being a player in the IT industry.

Looking back, if only our government had limited its involvement in the IT sector to the role of an umpire, who knows what further innovations our competitive businessmen could have brought faster to spread the use of IT all across Nepal at affordable rates?

Exhibit 2: Whenever Nepali newspapers talk about the blacklist of bank defaulters, they neglect to mention that the defaulters owed money primarily to government-run banks. Privately-run banks are better at collecting dues, and doing more with less, simply because they are answerable to specific owners who want profits.

By contrast, every time the Prime Minister shuffled his cabinet, a new set of masters was thrust upon government-run banks, which, over time, learnt to give out loans based on which borrower knew which higher-ups. Is it any wonder that wonder that the government has kept two of its flagship banks into receivership for the past several years? Again, there was this confusion about the government's role. In the name of providing banking services to the poor, should it remain a player in the banking sector? Or, would it have been better off putting state-run banks in private hands so that the government could concentrate on ways to make it easier for financial institutions to provide new and better

services to more people? After all, it remains that half a century after banks were introduced in Nepal, only 33 per cent of the population makes use of some form of formal financial services.

Exhibit 3: Recently students at state-run schools across Nepal have turned into rioters. Their complaint is that they did not receive textbooks in time to start classes and to prepare for exams. The students know that passing exams and getting through school are two conditions for success in today's world. But their anger was not directed at textbook stores or schools but at the government which monopolises the business of printing and distributing textbooks.

It's sad when young students have to go on a rampage and block highways to demand to buy textbooks. The government's not so agile that it could even think about putting the textbooks online or speeding up the distribution process through other channels. But this is what happens when it refuses to focus on the big picture (i.e. making sure that Nepali students know their three R's well), and gets caught up in the minutiae that could easily be handled by private firms.

The businessmen at the Himamedia discussion session were all veterans of the Nepali industry. They have dealt with governments of all eras of Nepal's recent 50-year history: pre-Panchayat, Panchayat, post-1990, former king Gyanendra's absolute rule, and the present interim one of post-Jana Andolan 2. In all cases, with varying degrees, they found the government of the day having a narrow worldview of the world of business-seeing businessmen as either exploiters or cows that could be milked endlessly. Despite paying lip service to satisfy

reform-pushing donors, no government has accepted the business sector as the engine of growth and a source to generate employment.

On the eve of the Maoists' takeover of the Nepali government through the strength they showed at the ballot box, it's worth highlighting the collected wisdom of businessmen: for the growth of New Nepal's economy, let us learn from the mistakes of the past. And the best way to do that is to let the government be clear about its limited and transparent role as an enforcer of rules or as an umpire. Let it not meddle into the game of business as a player. Else, to play on an old joke, 'Nepal is a country full of potential, and it will always remain so.'

# Daniel Weintraub



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## FREE MARKET FOR TICKETS HELPS FANS

19 August 2007

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Barry Bonds' recent pursuit of the all-time major league home run record swept like a wave through the Web site StubHub.com, which has helped take ticket scalping out of the grimy shadows and turn it into a hot Internet-based business.

As Bonds approached the record, the price of San Francisco Giants' tickets offered at StubHub soared, because fans eager to see and perhaps catch the historic home run were willing to pay top dollar. But once the scandal-plagued left-fielder hit number 756 on Aug. 7, prices plummeted again. The Giants, after all, were still a last-place team, and that week they happened to be playing a couple of doormats from the East: Washington and Pittsburgh.

The home run chase, by chance, coincided with an announcement that

StubHub will form a partnership with MLB.com, the major leagues' official Web site, and serve as the exclusive authorized reseller of major league baseball tickets starting next year.

Both events demonstrate how far we've come from the days when fans and owners alike sneered at secondhand ticket sellers as somehow un-American. In response, legislators in dozens of states passed laws banning or regulating the practice. No one ever stopped to wonder how it was that both the buyer and the seller could be hurt by having these middlemen in the action. And the truth is, they weren't.

In the long run, fans will almost certainly benefit from deregulation of the ticket market, and legislators across the country are starting to recognize that fact. New York repealed its anti-scalping law in June, and New Jersey, North Carolina, Pennsylvania and Massachusetts are considering taking the plunge. Selling secondhand tickets has always been legal in

California, though privately held venues can and do regulate the practice on their premises.

StubHub, founded in 2000 by a pair of Stanford University grad students and sold to eBay earlier this year for \$310 million in cash, is a big reason for that change in attitudes, and the company has capitalized on it. From its offices on two full floors of San Francisco's gritty but trendy Mission District, the firm served as the online broker for about \$400 million in ticket sales last year. Taking a service charge of 10 percent from every buyer and a 15 percent fee from the seller, StubHub netted \$100 million on those sales.

The company is able to charge that much because it provides two things ticket buyers can't find on the street: transparency and security. The StubHub Web site is like a stock market for tickets, with the going rates for any section in the ballpark or theater visible to any consumer. Sellers can see a history of comparable sales to help them price their tickets, and they can

adjust the price in real time, as many did when Bonds approached his record.

Once a sale is consummated, StubHub helps arrange for delivery through FedEx and offers a guarantee: the buyer will get his or her tickets on time or the company will provide equal or better seats, or, if that's not possible, refund the money. The company also has satellite offices near ballparks and arenas so that consumers can pick up tickets offered for sale at the last minute.

StubHub President Chris Tsakalakis, in an interview in the company's headquarters, said the changing view of scalping – which he prefers to call the “secondary market” – is long overdue.

“People are realizing that there is a market value to everything,” he said. “The face value is just what's printed on the ticket at the time it is printed. In some cases there's absolutely no attempt to match face value with market value. The reason someone goes to the secondary market and not the primary market is because the combination of the ticket being offered and the price it's being offered at is better for the consumer than it is on the primary market.”

Although it was once widely assumed that ticket resellers drove up the price of seats by increasing demand for them, that's not always true. A recent study by a University of Texas economist found that baseball teams in places with anti-scalping laws charged, on average, \$2 more for seats, while football teams fetched \$10 more. One possible reason for that premium is that a secondary market, especially on the Internet, makes the market more efficient, and banning the reselling of tickets for profit gives the teams more market power.

But as StubHub's deal with MLB.com makes clear, teams are realizing that, with a more efficient market, they can make up in volume what they might lose in the sale of an individual ticket. The easier it is to unload an unwanted ticket, the more likely it will be for people to buy them in the first place.

In the not-too-distant future, professional sports teams and concert promoters might even find themselves selling a good chunk of their tickets at market prices that vary according to the location of the seat and the demand for that particular event. The distinction between a ticket sold by the promoter and one sold by a fan or speculator could all but disappear.

“This is an asset like any other, and it works like any other commodity out there,” Tsakalakis said. “The market tells you what the value is.”

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## PROPOSAL TO WRITE-DOWN LOANS COULD WREAK HAVOC

11 November 2007

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With the housing market in decline and the mortgage industry in free fall, government officials are searching for something they can do to stop the bleeding. But a recent proposal by the head of the Federal Deposit Insurance Corp., while meant to help consumers, would actually hurt potential homebuyers who stayed out of the red-hot market rather than buying a home they could not really afford.

Sheila Bair, chairwoman of the FDIC, proposed last month that lenders simply freeze interest rates on so-called subprime mortgages carried by people who live in the homes they bought and who have been current in their payments so far. Many of these

people took out loans with low introductory “teaser rates” that will soon be adjusted upward, in some cases costing the homeowner hundreds of dollars a month more.

Bair's idea has appeal. It would certainly help troubled borrowers who can't afford the payments to which they agreed and are at risk of losing their home to foreclosure. In some cases, it might help the lenders, too. Foreclosure can be an expensive process, so keeping a person in their home at a lower rate could be cheaper than taking the home back and then trying to resell it in a sinking market.

Many lenders, in fact, are working with borrowers on a case-by-case basis to do just that. But Bair suggests an across-the-board action instead.

“We have a huge problem on our hands,” she said. “We can't just sit here doing this kind of case-by-case, laborious restructuring process ... For owner-occupied housing where the loan is current ... just convert that (loan) into a fixed-rate mortgage. Keep it at the starter rate. Convert it into a fixed rate. Make it permanent. And get on with it.”

Bair's proposal, however, ignores some basic facts about how the mortgage and housing markets work.

For starters, each loan is a binding contract between a lender and a borrower. The lender has given up some money that could have been invested elsewhere, and the borrower has agreed to pay a certain interest rate for the use of that money. Included in that rate is a risk premium. The less reliable the borrower, the higher the price they have to pay for the money, to compensate the lender for the higher

likelihood that some of those loans will never be repaid.

If, suddenly, that agreed-upon interest rate is unilaterally lowered, the contract held by the lender is, if not worthless, seriously devalued.

Few people care about lenders losing money. They are not exactly sympathetic characters. But follow that money a little farther along its path. Many of these loans were packaged and sold to investors as securities. By putting their money on the line, those investors were the ultimate source of the capital that allowed millions of people with low incomes or spotty credit records to buy a home.

An across-the-board write-down of those loans would wreak havoc on the securities industry, causing an overnight loss of billions of dollars of value in the investments they hold. It would also send an ominous message to anyone thinking of investing in the mortgage market in the future: your money is not safe here. Future investors would thus require an even bigger premium to part with their money for mortgage loans. The end result? Less money in the mortgage market, less money to lend and higher interest rates for everybody.

So while a few people who borrowed more than they could afford would get relief, others who sat out the housing boom because they were more prudent would be penalized. While they saved money for a down payment on their first home, the higher interest rates caused by the bailout would mean higher housing payments for the same-sized loan, further postponing their ability to get into the market.

And that's not all. One of the effects of foreclosures is downward pressure on housing prices. The bubble financed by these easy loans pushed the price of housing out of the reach of many prudent first-time buyers. The current decline, while painful to some, is a correction that eventually will make homes affordable again and bring more people into the market. Freezing interest rates at below-market levels would prop up the price of those homes. That's great for anyone who already owns a house, but it's a blow, again, to those who sat out the boom hoping that they could buy a home when normalcy returned.

None of this is to say that homebuyers who were truly defrauded by their lender should be stuck with their mortgage contract. In some cases, mortgage brokers or lenders failed to disclose how the loans would work, or inflated appraisals or incomes. Those contracts should be voided.

But consumers who simply gambled that the market would continue to soar and that, after a time, they could refinance their unaffordable loans at a fixed rate, are not victims. They are adults who made a bad decision. And they should not be rewarded at the expense of renters who restrained themselves amid the frenzy and are waiting for interest rates and home prices to come back within a range they can afford.

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## **PARTY LINE AND PELOSI ARE BAD FOR FREE TRADE**

20 April 2008

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Californians gain more from free trade than the people of almost any state in the country. But their leading representative in Congress – House

Speaker Nancy Pelosi of San Francisco – is trying to kill a new trade agreement with Colombia, aligning herself with a wing of the Democratic Party that has grown increasingly hostile to consensual acts of commerce.

By itself the Colombia deal is modest. But as a symbol of this country's commitment to trade it is huge. U.S. labor unions, especially the AFL-CIO, have made the agreement's defeat a major goal for 2008, even though the deal would help, not hurt, American workers. And the Democrats' two remaining presidential candidates have both opposed it.

Pelosi could have been the grown-up on this issue, drawing on her own state's experience to show that globalization, just like technology, has made our economy more dynamic and robust, and, over the long term, healthier. Instead, she is playing to the worst impulses of her party and pandering to those who believe that economic nationalism is the road to prosperity.

The best argument for free trade is a moral one: The government ought not use discriminatory tariffs to discourage two parties from buying and selling goods that otherwise would be legal. It shouldn't matter whether the trade is between a Californian and a Kansan or a Californian and a Colombian. It's a matter of free will.

But if that's not sufficient, economic self-interest also argues in favor of free trade. It allows people in different places to specialize in what they can do most efficiently compared with people elsewhere. By reducing the cost of products we buy, it frees up money we then have available to spend and invest on other things. Trade – between neighbors, across state lines or over the

oceans – is the foundation of economic progress.

Californians understand this better than most. Our economy has always depended on trade. Our farms and orchards feed the world. And while we used to manufacture cars and airplanes, and still sell a few computers, we now are becoming a state of high-level inventors, designers and entrepreneurs who thrive on connections to every corner of the globe.

Exports from California totaled more than \$134 billion in 2007, ranking California second only to Texas among the states. More than 50,000 companies export goods from California, according to the U.S. Department of Commerce, and 95 percent of those firms are companies with fewer than 500 employees. An estimated 20 percent of the state's manufacturing work force depends on exports for jobs.

The movement of goods is by itself also a source of employment and opportunity. The jobs in the bustling ports of Los Angeles, Long Beach and Oakland are some of the highest-paying blue-collar jobs around. And the services surrounding trade can also be lucrative.

Cange International Inc., a San Diego-based business, relies entirely on exports as a distributor of high-end home products manufactured in the United States. Among other products, Cange sells the Mississippi-made Viking Range in Colombia and has seen triple-digit growth in sales there each of the past four years.

But most of the products the company sells in Colombia face a 20 percent duty, driving up their price and making

them less attractive to Colombians. This is true of most U.S. goods sold there. Yet 91 percent of U.S. imports from Colombia already enter this country duty-free.

The U.S.-Colombia Trade Promotion Agreement would change that.

Like deals with Chile and Peru that preceded it, and won wide, bipartisan support in Congress, the Colombian agreement will level the playing field by eliminating most of the remaining barriers to trade between people in the two nations. Eighty percent of the Colombian tariffs would go to zero immediately, while the rest would phase down over time.

U.S. trade officials estimate that the agreement would increase U.S. exports by about \$1 billion a year while increasing imports by about \$500 million. Neither is likely to produce a noticeable effect on the massive U.S. economy, but the agreement would be a sign that the United States still believes in free trade and wants an open, friendly relationship with Colombia, a country that is struggling to emerge from decades of darkness brought about by a drug industry that feeds a U.S. appetite for cocaine and marijuana.

Pelosi has said she is concerned about the treatment of Colombian workers, but the Bush administration has already re-opened and amended the agreement to include the same protections the Democrats demanded in the recent agreement with Peru. And while American labor leaders say they are troubled by the assassination of trade unionists in Colombia, those killings have dropped dramatically in recent years under the leadership of President Alvaro Uribe, who is trying desperately to modernize the country

and free it from dependence on drug trafficking.

The Colombian pact would be good for Colombia, good for the United States and good for California. It's the right thing to do. It would be nice to see Pelosi be a forward-looking leader reflecting the optimism and energy of her home state rather than a lemming following her dour Democratic colleagues over an economic cliff.

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