Online Notes to Supplement 'Breaking Free of Nehru'

This document supplements the book 'Breaking Free of Nehru' by Sanjeev Sabhlok, being material which was in an original draft but which had to be removed to condense the book. This material contains a small duplication of text with the published book, given the great difficulty in segregating the relevant sections. Given time, I'll streamline this supplement upon the release of the printed book. Sanjeev, 9 July 2008.

Sanjeev Sabhlok

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Notes to supplement the Preface

Note: The following text was originally part of the preface in a draft of *Breaking Free of Nehru*. This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

A Nehru follower ties himself in knots

An important thing to keep in mind is that Nehru's fallacies have also been the fallacies of *almost all* other Indian political parties which, till today, have been almost entirely socialist. **When I ask therefore that we break free of Nehru's legacy, I mean breaking free of almost everybody's legacy in India.** I have already classified the BJP and the communists as Nehru's followers. But let's hear some modern perspectives from a senior member of Nehru's own political party: the staunch defender of socialism, Mr. P. Chidambaram. In 2005 he said: "Socialist goals remain valid. What we are trying to do is device and invent better means to achieve those goals."[1]

Now listen to his K.R. Narayanan oration at the Australian National University in 1999.[2] At that oration Chidambaram spoke of the massive failures of India's governance arising from the very same Nehruvian socialism he publicly swears by. Chidambaram began his lecture by refusing to compare India with other countries: "while comparisons with East Asia and China could certainly help in analysing India's economic trajectory and the success or failure of its policy responses, such an approach suffers from obvious limitations." What is 'obvious' to him is simply *not* obvious to me. It is strange to hear someone say that Indians are always *somehow* different from others and that ours is always a special case. So not true! But moving on.

He then outlined some of the terrible consequences of socialism: "the quality of India's human resources is abysmally poor... a third of all Indians are poor, malnourished, illiterate and in bad health." He also highlighted some of the distortions of our Constitutional arrangements:

> "India suffered a phase when the Centre encroached upon the powers and autonomy of the States. The States in turn usurped the powers of local bodies. **This was a logical fall-out of the centralised model of planned development India chose in the mid-fifties, which ensured that all economic decisions were directed by the Centre.** The result was that the Centre sought to assume a larger responsibility for development than assigned to it in the Constitution."

He also said, "Before the economic reforms of 1991, the States had little autonomy in attracting private domestic or foreign capital." Chidambaram then tried to pass on the blame for these failures to the Indian states. "To deliver on the development front, the States will have to perform and not just rest content with acquiring more powers. The overall record thus far has been uninspiring."

But isn't all this nothing but the pot calling the kettle black? It is worse—being misleading. **For Chidambaram conveniently forgot to inform the listeners of**

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[1] P. Chidambaram in the *Time* magazine, 14 March 2005.

[2] See full oration in Raghbendra Jha (Editor) (2006). *The First Ten K R Narayanan Orations: Essays by Eminent Persons on the Rapidly Transforming Indian Economy.*

his lecture that both in the states and at the centre, for most of the period between 1950 and 1991, it was Nehruvian socialist parties—and largely Nehru's (and Chidambaram's) own Congress party, that 'ruled' India and created this mess.

Similarly, and funnily enough, the *Economic Survey* 2005-2006, published by Chidambaram's Ministry of Finance pointed out numerous policy deficiencies such as "Indian labour laws are highly protective of labour, and labour markets are relatively inflexible."[3] Well: *who* made these laws? Pointing the finger at themselves is apparently quite hard for Indian socialists. They can't blame the British any longer for the mess they find themselves in; so they run about pointing fingers at everybody else. Time's up. The game is over.

[3] In paragraph 10.13. See http://indiabudget.nic.in/es2005-06/esmain.htm

Notes to supplement Chapter 1 – Freedom in Indian life

<u>Note</u>: The following text was originally part of chapter 1 in a draft of *Breaking Free of Nehru*. This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

Are we ready to be free?

Chidambram has been quoted[1] as saying: "Let me tell you very frankly, when I went to the Harvard Business School I was more or less a committed socialist. ... I must confess that I still remained quite pink when I was there." Does this imply that he is not one now? As a politician he has probably forgotten to speak the truth. … Sharad Joshi[2] has summarised this situation extremely well. I'm quoting from one of his writings:

> Nehru opted for national planning, industrialisation by making the public sectors reach the "commanding heights", license-permit raj, protection for industries and expropriation of the peasantry. It serves little purpose to argue if Nehru was sincere in his socialist conviction or if he had any real choice. Clearly, he was not dragged to statism by the upper castes and the bureaucracy. He showed no signs of reluctance, much less of resistance. He behaved like a latter-day Emperor Ashoka, spreading the gospel of socialism. It took less than forty years for Nehruvian socialist structures to crumble. Yet, there is no de-Nehruvisation campaign; no pulling down of old icons. Even the more ardent advocates of liberalisation and globalisation start their discourses by bestowing encomiums and paying tributes to Nehru.
>
> The forty years of socialism saw a phenomenal proliferation of governmental machinery. The license-permit raj brought unprecedented prosperity to bureaucrats, blackmarketeers, smugglers and criminals. They are alarmed at the prospect of any erosion of their 'privileges.' Labour unions are organising strikes to resist privatisation. Smugglers and criminals are getting into politics directly to subvert any attempt at thinning of the forest of rules and regulations. Well-known business houses are mounting massive, vicious and expensive campaigns in defence of their right to maintain their stranglehold over Indian consumers and pilfer foreign inventions. Socialists are an extinct species the world over; in India they are still very much alive and kicking.
>
> Failure of the socialist experiment did not generate any intellectual debate on the lessons of the Nehruvian misadventure or on the options available to the country. Private sector and profiteering have been words of abuse for so long that most people are reluctant to hand over the reins of economy to traders, industrialists and agriculturists. A confused and frightened people are reluctant to jump out of the sinking ship of statism. The socialistic government failed in India but people continued to dream of a government that dispenses charities and provides security nets. Political parties and their leaders make populist promises of cheap food and free lunches to win elections. Even most reformers and liberals[3] stoutly hold that

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[1] Devesh Kapur (2004). "Ideas and Economic Reforms in India: The Role of International Migration and the Indian Diaspora". *India Review*. Vol. 3 (4). p. 372.

[2] In an introduction to *The Law* (1850) by Frederic Bastiat. 1998. Liberty Institute. New Delhi.

[3] I must emphasise that liberalism used here by Sharad Joshi, and indeed in the Indian press, is usually meant in its American, or 'welfare socialism', sense. This is not liberalism the way it was originally articulated, as the philosophy of freedom and liberty. For instance, those who "stoutly hold that

government must have a major role to play in areas of health, education and social justice." [4]

government must have a major role to play in health, education and social justice" are definitely not liberals, as such a role violates our freedoms. My use of the term liberalism follows the Lockean, or the pure, classical meaning of the word, firmly grounded in individual liberty.

[4] I've changed the order of these paragraphs from their original sequence.

Notes to supplement Chapter 2 – An overview of the free society

<u>Note</u>: The following text was originally part of chapter 2 in a draft of *Breaking Free of Nehru*. This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

Free societies are human magnets

The first thing we note on our painting is an long row of foreigners queuing up to seek admission into the free society. Indeed, freedom comes closest to being measured objectively through its effect on the *flow of people* from a lower to a higher level of freedom. We can predict this flow with almost the same precision with which we predict the flow of water which flows, instead, from a higher to a lower level. Ask of a society: what is its *net* balance of migration and you'll get a sense of its level of freedom. Does the society attract more migrants, or do more of its citizens leave it?

By virtue of institutions that support equality of opportunity and justice, free societies act as powerful 'human magnets', sucking in some of the brightest talent from societies which are less free. Free societies are extremely attractive: they are seen as lands of opportunity. Most knowledgeable people would, if they could, prefer to live in such societies. Given its relatively higher level of freedom and its low level of governmental oppression, the USA is the world's greatest people-magnet, taking in between 6 to 12 lakh new people each year from across the world.

While economic reasons may impel people to temporarily work in places like Saudi Arabia or Libya, for the most part people do not migrate to or move to countries merely for a better standard of living. What they look for is the opportunity to achieve their own, and even more importantly, their children's highest potential. Therefore when people move for work to richer but shackled societies like Saudi Arabia, they do so only for a limited period in order to build up financial reserves. During this limited period they are unlikely to take their children—their most important asset—along with them.

Out-migrations

- People fled at great personal risk and expense from the former Soviet Union, erstwhile East Germany, and Mao's China; and desperately flee North Korea, Palestine and Afghanistan today.
- Even the exodus from a relatively free England in the 1700s to USA was, at least in part, motivated by the slightly higher levels of freedom found in USA. Both USA and Australia, founded by people who left an England that wasn't then as free as it later became, quickly rivalled England's power <u>even though they started from scratch</u>. *It takes very little time for free societies to become rich.* That is good news for India. People + freedom = wealth.
- That people do not choose to migrate even to a country as wealthy as Japan should lead us to suspect as the foremost cause its relative lack of freedom. Such a supposition turns out to be correct when we look at Japan's migration policies

which are not transparent, and possibly racist.[1] Japan has reaped the rewards of economic freedom by copying Western institutions but its people have not internalised the meaning of freedom or what it involves—namely, valuing individuals based on their contributions irrespective of what they look like, eat, or wear.

A consequence of their people-magnetism is that free societies are almost always multi-cultural and multi-ethnic melting pots. India was the world's largest melting pot for thousands of years, well before America became one. This indicates that at one time Indian kingdoms were relatively more free than kingdoms outside India. We can't read too much into these earlier migration, however, given that no society experienced close to true freedom in those times. Early 'migrants' were tribal groups moving like locusts to feed from one land to another until they settled on rich soil with plenty of water and life-giving heat—lands such as India. Freedom is relevant to individual choice: not to group choice. If large groups of people migrate, dressed in military gear, that would be tribal aggression, not migration.

Net emigration from India

While nowhere in the league of ill-fated North Korea or Afghanistan, India also has net outflows of people. Indians have essentially fled from socialist tyranny and injustice. Despite the lack of welcome in the West till recently (racism is lower now than it was in the past; and migration is now heavily weighted towards skilled Indians), many Indians prefer to live in the West than in their own, shackled homeland.

This exodus has stemmed somewhat with the Indian economy being freed up, though the data indicate an overall accelerating trend. There are anecdotal reports of talented Indians not only willing to stay on in their own country, but of some of the earlier emigrants wanting to return. That's very good news for India and indicates that India is being perceived as more free now. If this trend picks up, it would be comparable with the experience of East Asian countries like South Korea where under initial conditions that were not free, its best people left for the USA, but after good governance was established back home, many of them returned, contributing both money and skills, thus accentuating the virtuous cycle of freedom.

The following Tables outline the trends of emigration from India.

Table 1: Indian emigrants to the United States[2]

Year	*Number*	*Share of immigrants received by USA*
1998	36,482	5.6%
1999	30,237	4,7%
2000	42,046	4.9%
2001	70,290	6.6%

Table 2: Indian emigrants to Australia[3]

[1] The UN Commission on Human Rights report No. E/CN.4/2006/16/Add.2 dated 24 January 2006 on "Racism, Racial Discrimination, Xenophobia and all Forms of Discrimination" by Doudou Diène confirms that "there is racial discrimination and xenophobia in Japan, and that it affects three circles of discriminated groups: the national minorities—the Buraku people, the Ainu and the people of Okinawa; people and descendants of former Japanese colonies - Koreans and Chinese; foreigners and migrants from other Asian countries and from the rest of the world".

[2] http://www.nriol.com/content/articles/article62.asp

[3] http://www.indiatoday.com.au/coming_to_oz.php

Year	***Number***
1992-93	3,553
2001-02	5,091
2002-03	5,783

In 2006, Indians formed the largest single group of migrants to Australia. The number of *new* students from India coming to Australia to study now exceeds 25,000 each year. Most of these students will be eligible to become permanent residents of Australia after completing their studies. With Western societies rapidly increasing their intake of skilled migrants, high quality talent now has opportunity to go anywhere now.

It appears that the exodus from India is slightly *accelerating*. India's corrupt governance and dearth of good educational institutions explains this acceleration, despite increasing economic opportunities. Corruption in India is frequently among the main reasons cited by people for leaving India. If India does not reform its governance and become a free nation, this exodus will gather pace since it is restricted only by the limitations placed on new intake by the West. Three examples:

- An IIT and IIM graduate from one of the schools I attended when young, migrated to Australia in 1996. He met me recently and told me his story. He migrated because of his experiences with corruption in government after establishing a medium-sized business in India, employing sixty people. He reached a point when he could no longer stomach this institutionalised corruption and didn't want his children to grow up in such a corrupt society. He came to Australia without a job, willing to work his way up from a technician's role, if necessary.
- 32-year old Anand Akolkar migrated from Gujarat to Australia in May 2006, and was quoted by *The Age* on 30 July 2006 as saying: "[Australia] is much better than India. In India, you see a lot of corruption and its getting worse day by day."
- My personal reason to leave in December 2000 echoes this sentiment, though my failure to gain support for a freedom-based political party to resist India's misgovernance also weighed heavily in my departure.

Overall, we lose a net of 7 people out of 100,000 each year to emigration after taking into account those who return to India. This number is small, but those most likely to leave are both intelligent and honest. **The more talented people of any society are disproportionately more important to that society than their sheer numbers indicate.**[4] And it is these talented people who are most likely to leave. "Indians in the United States are almost 20 times more likely to be college educated than Indians in India."[5]

Many Indians migrants to other countries have therefore produced outstanding products and great wealth which is good both for them and for their adopted countries. While some of them make donations to their *alma mater* in India or send remittances to relatives, these people could have contributed much more to the Indian economy had they been given similar opportunities to create wealth in India.

Recent reports indicate that nearly 50% of our IIT graduates are now staying back in India against only 10 per cent of them till a few years ago. While this can give us solace, that 50% of the IITians still leave is not good enough. We would consider declaring India to be relatively free when it begins to receive more immigrants than the number of people who leave its shores. Finally, **when thousands of people from**

[4] Gangan Prathap (2003) "A soft mathematical model for brain drain" in *Current Science*. 85:5. p.593-96.
[5] Devesh Kapur (2004). "Ideas and Economic Reforms in India: The Role of International Migration and the Indian Diaspora". *India Review*. Vol. 3(4). p. 367.

countries in Europe, Australasia and North America wait in long queues outside their Indian Embassies, seeking our permanent residency or citizenship, no one would have any doubt about India being firmly on the trajectory to freedom. Our target is to have the top-most students of America and Europe clamouring to study in India; to have the world's best scientists and economists clamouring to teach in *our* universities. When that happens, I hope we will be delighted and invite these ambitious migrants to our country with open arms.

The culture of freedom: flexible, connected, relaxed

The **second** key indicator relates to the *culture* of a free society. There are numerous traits that come together to form such a culture. A few are discussed below.

Flexible and mobile

A free society is socially, economically, and geographically mobile. There is a palpable sense of freedom in the actions and motions of its people. Its people move up and down the economic and social ladder routinely; often in a single generation. Its children tend to choose occupations different to their parents', live in cities different to where they were born or grew up, and create new cultural lifestyles for themselves. Free societies are capable of rapid adaptation to a diversity of cultures and changing human knowledge.

Shared interest connectedness

A key cultural feature of free societies is the level of networking amongst its citizens. A lot of its people are linked to a lot of other people: particularly in their areas of shared interest. Tocqueville's *Democracy in America* written in 1835 is the most well known depiction of voluntary associations in USA. Also called civil society, the 'value' of these networks is often added to give us 'social capital'. People voluntarily come together to build systems of trust, with accountability based on penalising the 'defaulter' through the network. Such networks arise spontaneously. These groups could be formal or informal, social or professional. They share knowledge even in areas that would, in closed societies, be deemed to be off-limits; for example, defence technology. As an illustration, a sparsely populated country like Australia finds a market for the successful publication of tens of highly specialised magazines on a range of topics.

Social status is based on *actual* contributions

The free society gives everyone an equal opportunity to blossom. There is no caste system, no feudal residue of hereditary titles. Everyone gets an equal chance to display his or her talent. The social worth of a person is based on the *actual* contributions made by the person, not what the person's parents did; nor on the basis of that person's prior characteristics like caste or age or tastes such as what he or she eats or drinks.

Openness of mind

No one is forced into a mental straightjacket in a free society: the mind of each individual is completely unleashed. The individual is allowed to gather his wits about himself, reflect on his capability and interests, explore *all* opportunities, and then maximise his creative contributions in the areas for which he best equipped. The *entire* set of human knowledge and wisdom is available for use in such exploration, not a particular small subset of it as would be the case in tribal or hidebound traditional societies. Indeed, a free society has moved *well beyond* tribalism.

Through critical examination of its past a free society establishes higher standards of freedom and justice with each generation. A free person is able to choose ethical standards beyond those that prevailed in the past. For instance, no one is obliged to become a cannibal or practice polygamy or *sati* merely because some time in the past, some ancestor of that person did so.

Relaxed, tolerant, happy

A free society allows its people who are generally fun-loving, to let their hair down at the beach, or to simply lie down on a bench in a park, or belly down on the sand.[6] **Freedom is a state of relaxed tolerance and appreciation of the diversity of the thousands of types of people around us.** This relaxed state of mind leads to a contented, even happy, expression on the free citizen's face—just as a free bird's chirping is more melodious than a caged one's. Solemn, sad, and weary faces are not symptomatic of freedom. While it may not be a readily measurable yardstick, a society like Australia definitely has more happy faces than Hitler's Germany probably had. Numerous measures of happiness are currently being devised by academics at the moment: some of these confirm that free societies are happier.[7]

Social flexibility in India

Economic mobility, including occupational mobility, has been increasing in India after the 1991 reforms. The same, unfortunately, cannot be necessarily said of social mobility in India, except maybe in pockets. We continue to live in the twilight zone between tribalism, feudalism, and socialism. While India's feudal social structures have been impacted by economic reforms, they have a long way to go to unfreeze. India's majority religion, Hinduism, has a deep-rooted foundation of institutional discrimination. It is said that the caste system wasn't so rigid in Vedic times, but today this discriminatory practice is fully embedded in society. Besides, there are numerous other social constraints in India, such as linguistic barriers, which make it socially inflexible.

Indian citizens generally do not feel comfortable in migrating from one part of the country to the other. There is doubt in their minds about whether they will be able to adjust to the culture of the new place. We also have numerous geographical zones in India where 'outsiders' are prohibited from buying land or even visiting without special permits. An Indian can readily buy land in Australia[8] but not in Meghalaya, Kashmir, or numerous other parts of India. An Indian tourist can visit any part of Australia, but the same Indian citizen can't go to Arunachal Pradesh without a special permit. This is untenable for a country which aspires to be free. There also seems to be no place in India for people who have moved on beyond their traditional culture (whatever their reason). In brief, we do not find the openness of mind and social intermingling that is crucial for India to become a truly welcoming and free country.

While Western societies like Australia, each with migrants from 140 countries or more, are engaged in debates on the challenges of becoming multicultural societies, India has not yet overcome basic parochial pressures. We need to robustly challenge the caste system, tribal and language barriers, and the 'son of the soil' policies.

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[6] I cite the park due to a small incident in December 2000 in Hong Kong. On a beautiful sunny day in Hong Kong, I was playing with my children in a park, got a bit tired, and lay down on a bench to rest. Immediately a uniformed person came to me and asked me to sit up. One apparently can't lie down on a bench in Hong Kong! Despite being rated highly among the economically free societies, it hasn't yet imbibed the philosophy and culture of freedom.

[7] Adrian White, from the UK's University of Leicester, analysed the responses of 80,000 people from across the world and mapped out wellbeing in 2006. "People in countries with good healthcare, a higher GDP per capita, and access to education were much more likely to report being happy." The OECD report, *Society at a Glance, 2006*, also found a correlation between national income and the 'level of satisfaction with life'.

[8] See http://www.firb.gov.au/content/Publications/Buying_a_Home.pdf

Everyone in free India must be made to feel comfortable in moving to other parts of India.

Free societies are wealthy

Free society are *necessarily* wealthy; ie, it is *impossible* for a free society to remain poor. That doesn't mean that societies which are not free can't be rich. Some shackled societies like Saudi Arabia, Russia, and Kuwait have become temporarily rich based on natural resources. Wealth, absent other information, is therefore a necessary *but not sufficient* indicator of a free society.

The main drivers of wealth in a free society are its openness through free trade, and robust internal competition and innovation. Later in this chapter we will examine how free societies churn out literally *infinite* amounts of wealth. It is not very hard, really. Ever since Adam Smith explained it in his 1776 book, it is a well known secret.[9] On the other hand, countries like Saudi Arabia are equally guaranteed to collapse into poverty after their oil runs out *unless* they unshackle their society: that includes completely changing its culture.

India's wealth

What do we know about India's wealth? We must look at wealth using international comparisons, else it doesn't make sense. A useful comparison can be made with South Korea's wealth.

- South Korea's GDP was one-twentieth of India's in 1965 using the exchange rate measure of comparison (ie, not using PPP[10] for the moment). In other words, the South Korean economy was *smaller* than an average Indian state back then, but the average *per capita* incomes of an Indian and South Korean were roughly the same. By 2005, the South Korean GDP had become a little *greater* than India's, both being around $790 billion (World Bank estimates). In other words, South Korea grew 20 times more than India did in the last 40 years!
- If we use a more appropriate measure, the PPP measure, then India's 2005 GDP was $3.8 trillion and Korea's $1 trillion. Comparable calculations for 1965 are not readily available for this indicator. An average Korean now earns $21,850, six times what the average Indian earns, at $3,650. Assuming that per capita incomes in the two countries were very similar 40 years ago, we see that the **Korean per capita income has grown six times faster than India's in the last 40 years**.

Using either measure, we note that South Korea *significantly* outperformed India in the past 40 years, in *just over one generation*. At this stage we should not fall into the trap of explaining India's poor relative performance by pointing to our large population, or to our 'special' problems, or otherwise waving our hands about the air. Given that South Korea has 500 lakh (or 50 million) people, it would be wrong to think of it as a small country. Our socialism was responsible for our poor growth rates. Period.

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[9] Notwithstanding the extremely minor aberrations which may occur if the society suddenly discovers a disproportionately large natural resource endowment—the so-called Dutch disease.

[10] Purchasing power parity (PPP) takes into account the relative prices of goods and services such as haircuts. For example, I most recently paid $20 (Rs.650) in Melbourne and Rs. 30 in an air-conditioned saloon in Janakpuri, Delhi for haircuts. If price differences such as these are factored in, we may find that an Indian earning Rs.10 lakhs is richer 'overall' by perhaps a factor of 5 (my guess, not a scientific comparison), than a person earning the equivalent $30,000 in Australia.

This case study provides excellent proof that Adam Smith's formula works. South Korea merely followed—initially *very* imperfectly—the standard text book model of economic and political freedom. It has later become a more genuine capitalist democracy and is considered to be one of the most innovative societies of the world.[11] Comparing South Korea with North Korea teaches an even more powerful lesson!

People in free societies live longer, are taller, and smarter

Freedom also drives the vital indicators, namely, things like height and longevity. These are impacted primarily through the effect of freedom on wealth and then on nutrition; though genetic factors obviously play a role.[12]

The growth and heights of plants and animals is clearly dependent on nutrition: two plant seedlings from the same genetic stock achieve different heights depending on the amounts of sunlight and nutrition they receive. The effects of nutrition (read: wealth) on human height are also relatively well-documented, and quite startling. For example, young Koreans were roughly the same average height across the Korean peninsula before South Korea decided to expand its freedoms while North Korea choose to shut them down. As a result of this difference in freedom, young South Koreans are now 7 cm taller, on average, than their North Korean counterparts—a change brought about in merely two generations. Obviously, the better nutrition of the South Koreans is at the root of this change. Does this mean that people's heights will grow endlessly if they live in a free society? Obviously not. There will always be genetic factors at work. The wealth and nutrition that freedom generates enables people achieve their genetic potential.

Similarly, wealthier countries are generally healthier, as measured by longevity. However, as was the case of other 'weak' indicators of freedom, it is possible at times for poor, shackled, countries to also be relatively healthy, such as communist Cuba which gives special attention to healthcare but performs poorly on everything else.

Freedom increases intelligence

Freedom also impacts intelligence. Despite the intelligence quotient (IQ) being only a relatively modest predictor of success, and despite its well-known limitations as a construct well as difficulties in its measurement, a society's average IQ surely counts for something. The average IQ of an average Western society is standardised to 100. The average IQ of Indians living in India is around 85, which is considered to be *very low*. This figure is based on measurements conducted in India by a range of different researchers over decades. Despite the methodological issues the underlying data may raise, I have little doubt that this IQ difference is real (I would be pleased to be shown my error of understanding.) We therefore can't simply shrug aside a difference of this magnitude; we should explain it.

I have a hypothesis for this difference, but before I present it, I would like to outline a 2002 research finding.[13] This research asked the question: Does a nation's IQ determine its national income? The researchers found a small correlation between these two variables, and claimed that IQs of countries can 'predict' their economic success. Their proposed pathway is essentially shown below.

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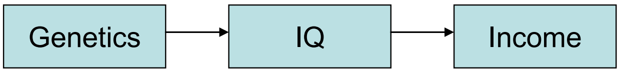
[11] "Asia's Great Science Experiment" in *Time*, October 23, 2006.

[12] It is conceivable that some societies that are not free may also do relatively well on this variable while relatively more free ones may not do as well.

[13] *IQ and the Wealth of Nations* by Dr. Richard Lynn and Dr. Tatu Vanhanen. See also the scattergram at http://en.wikipedia.org/wiki/IQ_and_the_Wealth_of_Nations



If IQ is genetic alone, and if income is caused *directly* by IQ, then India cannot do anything about it, and is presumably destined to eternal poverty. But in my view this model is wrong. Just because two variables are correlated doesn't mean that one *causes* the other. Or if there is a causality, it may not be in the direction hypothesized. A good econometric model requires a *theory* to explain its hypothesis; else one can start 'proving' causality of the most absurd sort. The relationship depicted in the diagram is wrong: **IQs don't 'cause' income**. Income is caused by an interplay of genetics and freedom. Let me explain why this model is wrong first, before suggesting the more likely model.

- Even people with high IQs, ie, those who would be classified as geniuses today, could barely light a fire and create stone tools 40,000 years ago. Their income would be close to zero. If we imagine they had a barter economy and convert their 'income' into current PPP values, we could say their income was about $300 (this is a *very* crude approximation!).
- About 1000 years ago England was a primitive tribal society, and India was a prosperous and advanced civilisation. Let us say the average English tribal earned half of what an average Indian earned at that time.
- By 1750, according to Adam Smith's deductions, there was *no* significant difference between the per capita wealth of India and England despite initial advances in freedom in England. At the overall level, the world's wealth was distributed: namely, with *greater India* at the top, China a close second, and the rest of the world a distant 'also-ran'. Let's say by 1750, all major societies of the world had roughly the same per capita incomes.
- Today things are different, with the English earning about 10 times more than an average Indian.

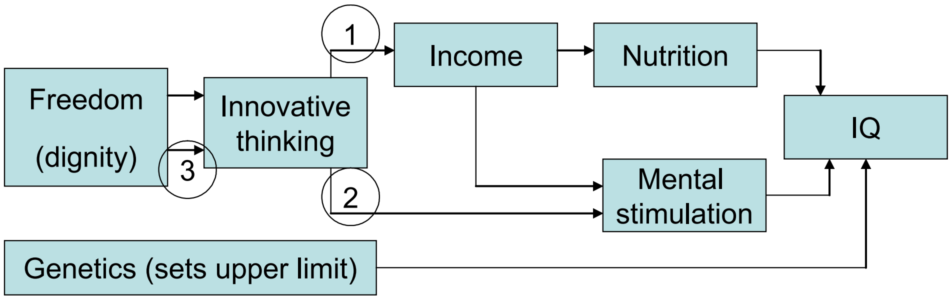
Cross-section data (ie, data extracted at one point in time) are potentially quite misleading. By making a time series we can often get a better understanding. I have created a table below of these hypothetical comparative incomes over the past 40,000 years.

Year	**England** Per capita income*	**India** Per capita income*
40,000 years ago	$300	$300
1000 AD	$500	$1,000
1750 AD	$1,000	$1,000
2008 AD	$40,000	$4,000

*A crude guesstimate with purchasing power parity or equivalent dollars.

This table leads to great problems for our 2002 researchers! If income is *caused* by IQs, then we can deduce from this table that 40,000 years ago the average IQs of England and India were similar. Indian brains then mutated and doubled in IQ by 1000 AD. English brains then mutated and doubled in IQ between 1000 and 1750 AD to equal India's. Thereafter English brains mutated in the past 250 years and increased in IQ by 10 times. In this manner the English IQ must increased 20 times over the past 40,000 years. I am of course simplifying things given that IQs are not linearly measured but are distributions. Either way, this mutation theory is ludicrous. Hence the model (and its conclusion) is wrong.

But then what is the true relationship? I have outlined a model in the diagram below to show that *if we simply look at correlations,* income and IQ are definitely correlated; but the relationship is complex and works the other way around than postulated in simplistic model above.



What has changed in the past 250 years is the way people in free societies *use* their brain. During this period, free societies have moved from tribalism and coercive restraints on human thought to freedom and free thinking. Yes, there is a genetic component in IQ, just as there is a genetic component to height. But what really makes a difference to IQ is the level of freedom in the society. Freedom helps an individual to achieve his or her fullest IQ, exactly as it helps a South Korean to achieve his or her maximum potential height.

A feedback loop also operates in my model (not shown in the diagram). If a person achieves his or her highest level of intelligence, then that person becomes more likely to provide greater mental stimulation to his or her children, which then increases their freedom, hence innovation, and hence wealth. **Freedom creates a virtuous cycle of success.** Indeed, if my hypothesis is valid, we should find that the IQ of the pre-industrial world was around 15 to 20 standardised points less than the average IQ in those societies today, and that the measured (and real) IQ of the human species will hereafter continuously increase with freedom, though at an far slower, even insignificant, pace. The pathways from freedom to IQ are discussed below.

- ***Pathway 1***. First, wealth (proxied above as 'income', to match with the researchers' model), which is the natural by-product of freedom through the channel of innovation, leads to a nutritional advantage for children in free societies. Wealth also leads to improved educational opportunities for children of wealthier parents which means more intellectual stimulation. These two—nutrition and mental stimulation—then lead to an across-the-board increase in IQ.

Box 6

Evidence that IQs increase with wealth

IQs have increased by up to 21 points in 50 years in some countries in the West (Flynn effect) as these societies have grown wealthier. Since Western nations have not mutated at an alarming rate in these 50 years, good nutrition and better education is clearly causing this change. Studies also show that when children from very poor families are adopted into wealthy families, their IQs become, on average, dramatically higher than their parents.

- ***Pathway 2***. Second, the culture of openness and discovery in a free society leads to innovative thinking. Release from dogma and inherited conditioning alone should boost IQ significantly. **The greater the flexibility in our thinking, the greater are the number of brain connections formed in our brains, hence higher the IQ.** This 'softer' cause of differences in IQs can be understood by comparing the different methods of teaching in India and countries like Australia.

Much of intelligence is about lateral thinking; Einstein's ideas were all about lateral thinking and making connections between radically different ideas. Such thinking is liberally supported by free societies by encouraging each child to ask questions and to conduct independent research virtually from kindergarten; reliance on rote learning is discouraged. Rote learning does, perhaps build the main connections or 'highways' in our brain, and certainly affects *some* dimensions of IQ. As a result, Indians who are primarily taught through rote learning, are good at mental maths which is predominantly linear. However, it is the openness and critical thinking that leads to the laying down in the brain thousands of neuron branches and millions of extra connections: pathways that the typical Indian child simply does not have in his head because of the emphasis on rote learning. Consequently, the average Australian enjoys a higher overall IQ and is disproportionately better on creative thinking. In that sense, freedom causes greater freedom.

Pathway 3. The third pathway is through the *regard* for each individual's *dignity* in free societies. Its opposite, eg, caste based discrimination, has been shown 'to reduce' IQs. For instance, it has been found that the Buraku, or the 'lower castes' of Japan, do as well as any other Japanese *after* migration to USA when discrimination against them drops. This aspect perhaps relates to our self-image: to deny that self-image matters is to deny our very identity. Our brain perhaps thinks most creatively only when it is not blocked by a deep sense of inferiority. This sense of dignity and regard also explains why the first born has, on average, higher IQ than children born later in a family.[14] The first born simply *expects* more from himself or herself.

Indian low caste children are brought up with a sense of inferiority so they are unlikely to think as much of themselves, and therefore unlikely to challenge the limits of their minds. Similarly, blacks in USA perform poorly in IQ tests because they have experienced discrimination cumulatively for hundreds of years. They perhaps grow up with *group memories* of slavery even now, memories that make their brains cringe. As expected, with greater levels of equality, black and white IQs are now starting to converge.[15] It will take a few more decades to confirm this convergence. Similarly, in India, when discrimination is removed, IQs of low caste children should rebound to normal levels.

This model suggests that it is our lack of freedom and our deeply entrenched caste system with nearly half of our population suffering from a sense of inborn inferiority, that has made us relatively less intelligent as an entire nation.[16] Indians therefore under-perform in every way relative to their potential. The good news is that this can be reversed simply by increasing the level of freedom in India, which will also help to break down the caste system.

A study reported that the IQ of Indians living in UK was 96, which is close to the Caucasoid mean, demonstrating that with greater freedom, normal IQs should re-

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[14] "The Power of Birth Order". *Time*, Oct. 18, 2007. See: http://www.time.com/time/magazine/article/0,9171,1673284,00.html

[15] William T. Dickens and James R. Flynn, "Black Americans Reduce the Racial IQ Gap: Evidence from Standardization Samples". *Psychological Science*. October 2006.

[16] I must admit that there is a potential problem with this hypothesis, since China has had very low levels of freedom, but still has a high average IQ but had very low levels of income till recently. There are clearly complex interrelationships between freedom, national income, and IQ. I suspect the discriminatory Indian caste system explains most of the lower average Indian IQ.

emerge in India.[17] I have not the slightest doubt that if and when India achieves its goal of being the world's *leader* in freedom, average Indian IQs will potentially exceed the average IQs found in the West.

* * *

[*Note*: The material covered in the main text is largely excluded]

2.1 The red herring of monopoly

The concept of perfect competition which is used analytical purposes in the theory of market organisation, has confounded people by appearing to be an ideal position. Free markets do not, however, in any way require the so-called 'perfect competition' of text-book economics.

Perfect competition is a model,[18] a convenient and highly simplified construct; useful shorthand to summarise the real world. However, models don't tell us what is desirable. Just as the models of astronomy and evolution tell us nothing about the meaning of life, so also the models of economics tell us nothing about how our freedom is to be preserved. Using the relevant jargon, these models are positive, not normative. In any event, economics is about economisation,[19] not about freedom. We need to be careful in the way we use economic models.

In this particular case, we *do not* need 'perfect competition' in order to be free. We need a much 'weaker' condition: that everyone, including all buyers and sellers, should be *free to choose their actions*. It doesn't matter if the shop or the trader that I am buying from is 'perfectly competitive'.[20] **If I can go to the marketplace and find what I need at *a* price, quoted voluntarily by the seller—a price that I *agree* to pay—then I am a free man and I ask for no favours of anyone.** If I find that the price being charged for what I want is too high, I may either choose something cheaper or I may choose to live without it. If the product I am looking for is food, and I happen to be too poor to afford it at the price being sold, then a free society would consider that issue *from the angle of equality of opportunity* and provide me with a negative income tax payment. If I am above the poverty line, then no one is obliged to do *anything* for me: I must redirect my potentially frivolous expenditures towards food.

If, instead of being happy to be a free man in this manner, and allowing everyone else be free, I ask my government to *forcibly* twist the arms of a business X into a 'perfectly competitive' mould, then I not only destroy that business's freedom, but also become economically worse off.

- I become poorer since my taxes are now used to fund the salaries of bureaucrats whose interest is to prolong the legal case against X and maximise their staff and hence salaries;

[17] Richard Lynn "Race differences in intelligence: A global perspective," in *Mankind Quarterly*, Spring 1991, Vol. 31 Issue 3.

[18] For those not familiar with this simple model, it is the logical opposite of the model of monopoly in which the monopolist exercises virtually full control over the level of production and the price charged. In the perfectly competitive world, no seller exercises control on the price, and hence produces the most he can at the price dictated by the free market, without making a super-normal profit. The monopolist, on the other hand, can make such so-called 'excessive' profit.

[19] All definitions of economics are about the analytical study of the allocation of scarce resources in society; not about studying how our freedom is best preserved. I am not fazed by optimality. We can have 'sub-optimal' allocations that are fully compatible with freedom. Should that be the case, we must defer to the requirements of freedom, not of economics. More broadly, though, both these disciplines, of economics and classical liberalism, come fairly close to each other in their recommendations.

[20] If spatial factors are added, even the corner sweet shop can be shown to have some monopolistic properties, where customers located nearest to the shop are almost entirely 'captured' through its strategic location.

- I become poorer because of the wasteful litigation and paperwork such regulation engenders, thus reducing business productivity and hence the country's GDP.

But most important of all, I no longer retain the moral fabric or spine to call myself a free man and my society a free society. **By *forcefully* reducing X's freedom to sell a legal product, at whatever price X chooses to, I become a bully, a coward, a socialist—wanting to rob someone merely because I can use the power of the state to do so.**

If competition has to be encouraged to defeat a large company X (something which can *never* be a state's objective, for fairly contested bigness is never an issue), then it has to be done by letting markets free, not by restricting X's decisions. We spend thousands of rupees each year buying useless things like cigarettes, alcohol and perfumes without complaining about their high prices. We take overseas holidays that cost tens of thousands of rupees and do not complain about their high prices. But when the time comes to pay for our electricity, water, public transport, college fees, telephone charges, or petrol, we want the government to step in and forcibly reduce their prices. The very feasibility of controlling a price through government intervention explains most of the clamour for price control.

But freedom cuts both ways: I cannot on the one hand demand the freedom to do what I wish to, and on the other *force* a seller onto his knees. The ethics of freedom does not allow coercive force to be applied unless a *crucial failure of accountability* has occurred such as someone having been cheated, injured, or significantly harmed.

Claims of 'price gouging' and collusion are also commonly used to justify such interventions. While collusion among businesses admittedly does take place at times, it is not always a violation of freedoms. By setting the price of oil through a cartel such as OPEC, sovereign nations can exercise their right to set prices any way they like and to sell as much oil as they wish to. We can't expect less freedom than that for *sovereign individuals* (or organisations of individuals). Collusive price-setting may smell bad but its impact on us is a higher price at worst, not an injury, deception, or crime. If the promised product is correctly supplied, and if no one is injured, there is no room to ask a government to intervene.

But do monopolies and cartels exist at all?

This is a valid question to ask. Cartels and monopolies are never stable or sustainable. If a market is truly free then there is *no* possibility of a sustained monopoly or cartel coming into existence; or if such a thing were to momentarily arise, to continue. The pressures of competition invariably cause such things to unravel. Three things happen when a monopoly or a cartel starts forming leading to higher prices:

1. Consumers react by buying less of the product. The high price therefore can become counter-productive by reducing total revenues (not necessarily total profits, of course, for a short while).
2. These high prices attract competitors who are always on the lookout for such signals. With even the *smallest* competitor entering the market, it becomes very hard for a business to charge the higher price as customers *quickly* shift to this new provider. That marks the end of the monopoly.
3. As far as the incipient cartel is concerned, at least one member of a 'cartel' will want to gain market share on the sly *at the expense of others* by setting a lower price or selling secretly. All cartels are instable. OPEC members slyly exceed quotas all the time. In a domestic market, the higher price provides an entry signal to competitors and that again puts downward pressure on cartels.

Have we ever seen free market 'monopolies' or cartels continue for, say, *five decades*? I can't think of any. There is no area of life where there is no competition *unless* that competition has been stifled by the government. What may appear to be a monopolistic seller in a small town is soon seen to be a bit player in the national and international marketplace. If international trade is kept open as it should, then the relative pricing power of a business will be affected by international competition as well, not domestic competition alone.

Looking beyond the structure

In any event, we must avoid becoming tied to the *structure* of a business transaction as a determinant of its justness. We must ask: *whose freedom or accountability is being compromised? Which* freedom of ours (eg, to act, to choose) does a cartel affect?

We note that all businesses are a complex web of contracts; some internal, others external. A person working *inside* a company today could very well be contracted from another company tomorrow. Japan mastered the art of outsourcing virtually every specialist task to other businesses, and merely assembling the product in the main factory, using a just-in-time model. We cannot blacklist a cartel, which is a particular type of a coordination-based external contract, without reference to the fundamental question of accountability.

Activities conducted internally by a business are not *more* legitimate than activities conducted in collaboration. For instance, at times cartels could represent a pre-merger situation where the companies involved are planning to merge. Many IT companies such as Cisco are essentially not one but tens of companies merged together. A formal merger is no more legitimate than a collaborative agreement. There remains the key issue of transparency. We do need to know when there is a cartel; just as we do need to know when there is a merger. If OPEC says publicly it is a cartel, we can have nothing further to say. But most countries have anti-cartel laws which drive such collaborations underground. It would be far better to mandate public disclosure of all price-collaborations so that not only do we know from whom we are buying a product, but potential competitors are alerted to the opportunities created for them by the price-collaboration.

At times we confuse monopolies with 'bigness'—with the sheer size of a business. Surely, we cannot be not against bigness if it is a fairly contested bigness. Organisations that become large because we *voluntarily* purchase their products (since we get better value from their products than from their competitors) are surely a legitimate part of the free society landscape. Their bigness does not imply any breakdown of freedom. If any business, whether big or small, unfairly blocks new competitors by temporary and very significantly undercutting prices with the intent of squeezing out the new competitor's margins, we can become concerned. That violates the principle of *equality of opportunity* that is a derivative principle of freedom. A free society must allow all entrepreneurs the *equal* opportunity to compete with other businesses. If, each time a small business starts to build a factory, its large competitor undercuts prices and bankrupts the small business, then the level playing field is destroyed. A fight must be fought fairly; success must be based on the *voluntary choices of the members of the society*, not through bullying. The government, as an umpire, can therefore step in and impose penalties for uncompetitive behaviour. If such behaviour recurs, the licence of the big business can be legitimately cancelled.

In general, though, if governments allow markets to work their way out, then people with bright ideas will always contest, and frequently trounce, the biggest business. But whether someone successfully trounces a large business or not does not concern a government or a free society. All that matters is that no one's freedom is compromised.

Government-business collusion

The real problem, of course, is that monopolies are *almost always* created by governments which shelter certain businesses and prevent others from entering the market. The East India Company was one of the earliest examples of such a monopoly. In independent India we have seen many other such monopolies, mostly in the public sector. The quota system also created private sector monopolies by protecting them from competition, such as the Ambassador car. Indian socialist governments have also blocked competition on pretexts like the 'infant industry' argument, or the market being 'too small', or an investor not belonging to our country.[21]

Business lobbies generally *oppose* competition. It is far cheaper for a relatively inefficient business to 'persuade' the government through a bribe of some sort to regulate it in a boutique manner that shields its industry, even if temporarily, from competition. Similarly, it will always remain more lucrative for politicians in league with business to set up huge bureaucracies to protect *their* (the politicians and bureaucrat's) own empires, than to allow citizens to harvest the rewards of freedom.

In brief, the free market destroys *all* monopolies and cartel; only governments create and sustain monopolies. We therefore don't need to worry about private monopolies or business collusion; but we need to be *very* worried about collusion between business and government.

* * *

Anything that does not violate free choice and accountability is a valid process for markets. A free society needs competition, but not 'perfect competition'. India's challenge is to get its government to focus on delivering accountability and justice, and getting out of needless regulation. Many absurd regulations created by previous socialist governments are being dismantled now, but the battle has barely been joined.

I hold most businesses in India in limited esteem: many are mindless worshippers of Mammon. Bribing politicians and bureaucrats and not paying taxes comes naturally to them; very few of them possess personal values or care for freedom. They prefer to support corrupt socialist parties and bribe their way to success. Such people command contempt, not respect. And yet in the pursuit of freedom one must advocate even their freedom to produce whatever they like and to set the prices they wish. Over and above this must be a strong layer of good governance which severely penalises tax evasion and corrupt actions of businesses. Hopefully the more ethical businesses will then find it easier to succeed.

4.4 Flexible labour market

In the labour market, employers are buyers and employees are sellers. We employees (I use the first person plural for simplicity since most of us are likely to be employees) hire our services keeping in mind our cost parameters: such things as the cost of living and the capitalised cost of our specialist education. We do so with the aim of:

a) at least breaking even, ie, achieving at least a level of income which enables us to survive as well as recover our costs of education; and

b) making the greatest profit we can, for we would also like to earn the *most* we can. We would all *really* like, if possible, to become rich one day.

All the usual 'signals' applicable to other products and services apply equally to labour, things like the price and profit signals. But how is our economic value

[21] Governments like to interfere in many subtle ways; eg, there was a rule in my times that required government officers to use Indian Airlines for official journeys, even as competition was officially allowed to sprout in the Indian market. Such rules clearly violate freedom and fail to provide a level-playing field for business.

determined? Who measures it? Why does the market pay everybody differently—not a socialist it is, treating us equally?

First, we observe that we exist on the *supply side* of the labour market since we are sellers. To begin selling anything we have to put a price sticker on it. Like a fruit seller puts a sticker on the mangoes, we need to put a sticker on our forehead. We need to know what to charge others for our labour. To determine the price we will charge others for our time, we look at the price charged by others who do similar things like us. To expect more money than that would obviously not work. When the price of similar mangoes is Rs. 20 per kilo, the fruit seller can't sell a single mango if he prices them at Rs.50 per kilo.

With an initial estimate on our selling price, we are now ready to apply for a job. We shortlist only those jobs which match our abilities. It doesn't make sense for a fresh engineering graduate to apply for the position of General Manager in Microsoft. If we are lucky enough to be able to negotiate from a position of strength, eg, if we happen to be a well-established film star, manager, or golfer, we can quote a very high price and effectively say: 'Take it or leave it!' But that is not an option for most of us.

More commonly, the 'demand' side comes into play in a big way. The buyer, namely the employer, becomes a major factor in determining what we are finally worth in the market. Like all other things, the worth of our time is in the eyes of the beholder. Upon receiving our application, the potential employer evaluates our worth by conducting an analysis of our skills, experience and personality traits. The employer looks at our résumé; then, if further interested, calls us for interviews or tests. He may then contact our referees and ask probing questions about our behaviour and temperament. Only after all that is done, and having confirmed that we are likely to perform well on the job we have applied for, will an employer make an offer. All this is obviously quite sensible: we all understand that we have no automatic rights to a job just because we put in an application. We are only the seller. The buyer must agree to buy!

At this stage, like will happen with any other product such as mangoes, if the employer offers us a wage well below what we think we are worth, we will probably walk out of the deal and look for an alternative employer. That applies even in respect of our current employment. We continue to work for an employer only as long as we are paid at least equal to, or preferably more than, what we think we would receive *outside* of our current employment. If we believe that someone else will pay us significantly more, we will abandon our current job with great alacrity! But assuming that our potential employer is now offering a price (ie, salary) within the range of our expectations, we may enter into a further negotiation.

In the vast majority of cases, though, we don't gain by trying to negotiate, there being no difference between us and the next candidate in line. We therefore simply accept the salary offered and start work. Whether we negotiate or not, the **salary we accept then becomes the true economic worth of our time**. Our time is worth neither one paisa more nor less.

What is the role of collective bargaining, namely, of unions, in all this? *After* taking up a job, if we believe that our value is not being fully appreciated by the employer, we can join a union and ask the union to negotiate a salary increase on our behalf. That is perfectly appropriate. As a seller I am entitled to hire an agent to represent my interests. But while participating in collective bargaining, we are not likely to get the *specific* price relevant to our *individual* worth; that is because collective bargaining averages out the value provided by *all* employees in a particular salary band. This kind of bargaining is only good for getting things that we have in common with *all* others. In fact, that is why it is called *collective* bargaining (see box below)! If we think we are particularly good, we should avoid collective bargaining and negotiate an individual contract, instead.

In the end, no employer will *ever* pay us more than what he thinks we are worth, and none of us will *ever* work with an employer if we think we are not being valued properly. This competitive tension between the supply side and demand side is *exactly* the same as the one that determines the price of mangoes. Each trade leads to the best possible outcome, or optimal, for both parties. When we finally start work, we are pleased and happy; we may even throw a party. We have become better off than before.

Box 7

Collective bargaining

Bargaining by unions on behalf of an individual is the natural extension of *any* negotiation between buyers and sellers. And as with other negotiations, such as the purchase of mangoes, the threat of walking out (in this case going on a strike, *conducted responsibly*) is always a strategy available to the negotiator. Going on strike by unions is therefore quite legitimate, for it forces the buyer (employer) to either shut down or to pay workers the highest possible share of the value created by workers that is compatible with the continued existence of the business. There is no magic formula known to mankind to decide the split between capital and labour. Collective bargaining helps to get each party the best possible outcome. It is therefore fully compatible with capitalism and the demands of freedom, *so long as it is conducted responsibly and no violence is used.*

This view of unions has not been shared by governments and big business in the past, neither in socialist societies (for example, China does not allow trade unions) nor in relatively free societies. Economic historian Cameron observed that: "Most Western nations have passed through at least three phases in their official attitudes towards trade unions."[22]

- The first of these three phases, till the early 1800s, was the outright suppression of unions through prohibition.
- In the second phase, after 1825, Western governments granted limited recognition of trade unions.
- In the last phase, from the early 1900s, Western governments have accorded full legal rights to working men and women to organise as a collective. This has also led to the growth of numerous political parties with labour as their banner. Labour parties of recent times are not at all socialist. Most of them acknowledge the importance of free markets in determining the best decisions for a society. It is quite common for labour governments in the West to *oppose* excessive demands from unions.

All modern capitalist societies are now relatively at ease with collective bargaining. **Unions have played a <u>pivotal role</u> in the development of capitalism.** Unions are a very important institution for a free society, being a part of the system of checks and balances on businesses. **They have been instrumental in improving working conditions in free societies** and guarding against arrogant businessmen who care little about their workers. As there is no 'natural' law to determine the number of reasonable work hours in a week, unions have been instrumental in bringing about the eight-hour day and the two-day weekend across the world. Most people in the world have benefited from such representative activities of unions. Left to themselves, many businesses get so involved in making

[22] Rondo Cameron (1993). *A Concise Economic History of the World.* New York: OUP. p.218.

money they start treating labour as their property, not as fellow citizen of equal status whose time they have temporarily hired. They may not display sufficient regard for the health and safety of their employees, either.

A free-market remains must ensure that labour market remain entirely flexible and respect individual choice. For example, I may be quite happy to work 12 hours a day and may not need even a weekend break—particularly when I am deeply immersed in work that I enjoy. While not everyone may think of this as a reasonable behaviour, they can't have the power to veto my choice to work well beyond the so-called normal hours—as long as I don't become so fatigued that I jeopardise the health and safety of others.

The point being that a free society leaves it to individual citizens to join, or to not join, trade unions. It allows for the entire range of working conditions that can be either individually tailored or agreed collectively through bargaining.

Hiring and firing!

Should an employer be allowed to fire an employee at will? This issue perplexes many and polarises many of us. Let us apply the principles of freedom to examine this question. We note that an employment contract is not a sacrament like marriage, nor does it create children or other responsibilities. It is simply a contract to temporarily hire someone's services at mutually agreed prices and terms. No lifelong rights are created by an employment contract, unlike a marriage contract.

If an employee becomes better off by moving to another employer, we have no hesitation in encourage that employee to switch employers. This switch also increases the overall wealth of the society as the employee will presumably be more productive in his new role. An employee should be free to leave his job whenever a better opportunity presents itself or for any other reason.

Well, we are obliged to accord the same flexibility to the employer to fire an employee. If a plumber whom we have hired for repairing our taps doesn't do good job, or we run out of money and cannot afford to fix all the taps in the house, we are free to ask the plumber to stop work and leave. While there is a difference between a short-term contract we may have with a plumber, and our long-term employment contract with our employer, that difference is a matter of degree, not of principle. **An employer must remain free to fire an employee for *any* reason.** This reason could include not meeting the expectations of the wage contract, or a change in the employer's circumstances making the employee redundant, or even that the employer finds it hard to work with a particular employee.

Such flexibility is critical in a labour market. In any event, a free society cannot force a business to undergo a loss by preventing it from dismissing underperforming employees. Why should just deserts for our performance, whether good or bad, not apply to us? We are accountable for the quality of our work. We can sleep easy knowing that no outstanding employee has ever been fired; businesses actually pay *big* money to retain good employees. Therefore, let merit reign supreme, and the society will achieve its highest potential and greatest possible wealth.

In closing this sub-section we note that this flexible system of hiring and firing, with *each* person valued optimally by the market at *each* point in time, is distinct from the communist or socialist systems where *everyone is paid virtually the same, irrespective of the economic value thus provided.* Socialist societies not only force uniform salaries and hence mediocrity on their government employees, they block labour flexibility in the private sector. Today, India has one of the world's most dysfunctional labour markets, both in its private and public sectors. In order to be free, India will have to deregulate *very* significantly in this area and allow complete freedom for people to resign, or hire and fire. That will significantly increase India's wealth.

4.5 Education

We cannot expect a child to grow up into an adult capable of making informed choices without having acquired at least a decent education. Capitalism requires the society to develop the knowledge and skills of its children. Semi-capitalist societies like USA, Japan, Sweden, Finland, France, Germany, Netherlands and UK had all achieved very high literacy rates by the end of the nineteenth century; some of them had achieved similar high rates of literacy even earlier[23] prior to the ideas of freedom becoming more widely understood. Initial growth in literacy was grounded in compulsion.

But is compulsion really necessary? As the father of my children I am responsible for them; so I must have the freedom to educate them, or to not educate them. My having such discretion really doesn't bother anyone, because you are *certain* that I will to educate my children. Indeed, we clamour for good schools for our children, and spend hours with them at home on their studies. Making education compulsory would be merely a needless encroachment on our freedom.

But the existence of child labour would seem to indicate that at least *some* parents are not as rational as us. But these parents are not really irrational. First of all, child labour is not a new thing; it was a normal part of feudal society. India's socialist policies didn't help change this. These policies led to continued poverty and (hence) to rapid population growth. These policies also made education quite meaningless: the low-quality 'education' delivered by village and small town schools was worthless. Therefore, parents in remote villages *rationally chose* to provide their children with vocational and life-sustaining skills instead. You and I would have likely done the same in their place. As India becomes free and the quality of education improves parents will be able to can see the direct relationship between good-quality school education and the future income of their children. At that point parents even in the remotest villages will voluntarily send their children to school instead of making them work. We already see this happening with private English medium schools sprouting in villages across India. Parents are not fools. They recognise value when they see it. So let us respect their decisions.

A free society *automatically* creates incentives for parents to educate their children. **In a free society it is not necessary to legislate mandatory education.**

In the modern world it is not sufficient to be literate. Today it is the total quantum of *education*—the number of years of good quality education—that matters. A minimum of twelve years of good quality schooling is now a norm in most free nations.[24] As far as higher education is concerned, at least a quarter of the adults in Western societies now possess a bachelor's degree or higher. Therefore, for India to even *hope* to compete with, leave alone do better, than these societies, India will need to completely discard its obsession with socialism and let parents drive up the demand for education. This can be done by expanding free choice and enterprise in education—to be discussed in chapter 7.

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[23] Literacy took time to fully encompass all sections of society in these countries. For instance government financed education started in England only in 1870.

[24] Angus Maddison (1991). *Dynamic Forces and Capitalist Development*. Oxford University Press. p. 64. However, there is still a significant proportion of children who drop out of Western school education perhaps after year 10 or so.

4.6 Entrepreneurship

Our mind is a malleable, adaptive and creative thing, with an amazing capacity to generate new understandings about the world. In this manner our mind creates *new knowledge* out of existing knowledge. Over a lifetime, our brain generates millions of new ideas and new combinations and linkages among existing ideas: a churn of cognition and perception that frequently leads to new insights. The more freely we let these ideas arise and flourish in our minds, and the more inquisitive we are and refuse to take any traditional 'gospel' as the truth, the greater are the levels of innovation in society.

Through these creative processes, Edisons, Ramanujams, Bill Gates, Voltaires, Hayeks, and others constantly emerge, challenging *all* limits and changing the world for ever. New ideas are now such a normal part of our lives that we routinely expect to see a flood of new products each year. In fact, the amount of innovation and invention taking place in the world today is beyond the capacity of any single human being to even begin to grasp.

No system of governance supports new ideas as well as capitalism does. In being innovative the free society is *singularly triumphant*. A capitalist society actually has 'designed', by trial and error, a very effective method to translate new ideas into products. As with most other mechanisms, this one too requires *no* involvement of the government. This is how it works.

A new idea, invention, or process, is the first thing an entrepreneur needs to have. This is generally very easy, given a free society allows unbounded exploration of all possible ideas. The real hard work begins *after* the idea is dreamed up. The challenge for the dreamer is to convert the idea into a product, and to make us, the consumers, want to buy it. The dreamer has to become an entrepreneur.

The first challenge for the entrepreneur, after the idea has arisen in his head, is to produce sufficient quantities of the product to demonstrate that the product works. That will also show whether the product could be of interest to consumers. This means making a prototype. As it costs money to produce a prototype, and no one in a free society is willing to fund every half-baked idea that sprouts in someone's head, this sets up a 'Catch 22' situation for the entrepreneur. The entrepreneur can't sell the product until it is produced in bulk, but he can't produce it in bulk until he can demonstrate that it that will work—and sell.

Financial institutions such as banks are not a good source of funding at this stage, for it is too risky for them to invest money into completely untested ideas. Nor are most venture capitalists likely to take on such risks. An entrepreneur therefore must begin by risking *his or her own money* if he is lucky enough to have some, or by borrowing from close friends and relatives, in order to produce a prototype. That is a necessary risk that the dreamer must take, and no one should feel sorry for the dreamer/entrepreneur. After all, if the entrepreneur doesn't believe *sufficiently* in his idea to risk his entire savings, why should *we* care to pay up from our precious savings for its development?

Unfortunately, socialist governments being very paternalistic, try to step in at this stage, squandering a *lot* of tax payers' money on useless products. The recommendation to them is: "Don't!" There is *really* no gain without some pain. So let the entrepreneur suffer and learn a bitter lesson if he has cooked up a useless idea which no one wants to buy. Let the entrepreneur's misjudgement not be spread to tax payers. Stay away!

Having proved that his product works and is likely to find a market, the entrepreneur must then mass-produce the product. As full-scale production and marketing is *extremely* expensive, the entrepreneur almost certainly needs to borrow large sums of money from *someone*, or to ask others to invest and share in the upside of that product's future. A market comprises of all of us, buyers and sellers, taken together, each with different skills and resources. Therefore there will usually be some of us who are quicker to recognise the possibilities in the prototype, and are willing to take the risk to fund the entrepreneur. Such people could be venture capitalists, but ordinary folk like us also often subscribe to equity through initial public offerings. In each case, the lender or investor looks at the entrepreneur's business plan to determine whether the risk of lending or investing money is commensurate with the likely rewards.

Let us assume that the product is found good enough by fussy financiers to invest their money in. The next unenviable task for the entrepreneur is to attract competent workers so the product can be produced on a large scale. He may also have to persuade people to learn new skills. Next, the entrepreneur has to persuade retailers to stock the product on their shelves. Retailers are particularly averse to putting products on their shelves that are not *already* in demand. To persuade the retailer, the entrepreneur needs to conduct a marketing campaign *simultaneously* to persuade the consumer to buy the product. Each of these activities is a professional discipline in itself. But in a free market all these difficult and challenging things take place purely through recourse to persuasion and appeal to other people's self-interest. This process respects everyone involved, and is democratic and civilised.

On the other hand, in a socialist economy, nepotism or even brute coercion underpins production decisions. The market has no role in such decisions: everything is centralised in the government. The marketing strategy used by government is very simple: block competition! No one is allowed to compete with government undertaking. Its 'persuasive' message to consumers is: "Take it or lump it!" We are given the choice to take a third-rate government scooter right now, or to wait for 3 years for a Bajaj scooter on which a limited production quota has been placed. Of course, we could always bribe an officer or politician and get ourselves a Bajaj on priority. So with gas, water, electricity, education, computers. Everything. Those who have gone through the nightmare of Nehruvian socialism in India know how it has destroyed entrepreneurship in India.

In the heyday of socialism in India production went almost completely underground. Smuggling became the norm. Since so many kinds of trades were declared illegal, ordinary traders were tainted and called smugglers. A free market restricts the trade of selected goods, but the scale of such bans in India was well outside the realm of reasonableness. Socialist decisions to produce are made by bureaucrats who *never risk their own money* to produce anything. They also have *not the slightest clue* of how to run a business. Alternatively, these decisions may be taken by politicians who are more interested in favouring their friends and relatives than in the quality of the product produced. In consequence, incompetent services and useless products are produced, and sold at prices completely unrelated to production costs. **None of the innovations in Intel, Microsoft, or Infosys could have ever have occurred if they had been public sector undertaking.** Even today, entrepreneurship in India is strangled by the presence of needless government public sector organisations which should never have been established in the first place. These should now be shut down or sold off *transparently*, ie, without the corruption typical of socialist India's privatisation efforts. In that way, the market will finally be allowed to decide *what* to produce and in *what* quantity.

A great conundrum for socialist governments is our constantly changing tastes. As hundreds of new products and technologies enter the global marketplace, we change our purchasing patterns. We give up certain products completely or switch to others that are not even close substitutes. And as our priorities changes, we may switch from buying cigarettes to purchasing fruits or gym memberships; we may buy a bicycle instead of a car to improve our health or to do our bit to prevent global warming. Our demand can also change as we grow older or become unhealthy, from peer pressure, or fashion-consciousness; or from the simple quest for variety. The market copes with *all* these changes in our preferences[25] by constantly reviewing its investment decisions. That is why stockmarkets move on a daily basis as the entire society readjusts quickly to what needs to be produced in the future in response to changes in consumer behaviour.

On the other hand, socialism is complete flummoxed by these changes, being a dim-witted dinosaur with a brain one billionth the size of a market's brain. For example, once a public sector undertaking is established to produce something, it goes on producing it for ever, without any reference to changes in the demand for that product. Socialism converts otherwise intelligent people into morons upon their entering a government job. On the other hand, **in a free society, just the right or *optimal* amount of funding of potentially viable ideas takes place as a result of the highly intelligent and judicious self-interest of people involved in the process, each of whom is *required to put his own money on the line*.** There is no better way to focus our mind than to force us to put our own money at risk!

Of probably one thousand products that are conceptualised, a hundred may get to the prototype stage. Of these, ten may achieve mass production. Of the ten that are mass-produced, only five will perhaps be found truly valuable by consumers. The other half will lose money or barely break even. And of the five products that do earn money, only one will do so well enough to *more than sufficiently* recover the losses from all others that failed. The capitalist society is significantly enriched by the five products that succeed. Five out of thousand may not appear to be a high success rate, but it is actually the highest *feasible* success rate, keeping in mind that most of our ideas are bound to be worthless. The best thing is that by allowing investors to risk their money and consumers to select the winners, no taxpayer money is wasted at any step.

The wealth produced by entrepreneurs is *astronomical*. Hewlett-Packard, Microsoft, General Electric, and Cisco are among the many hundreds that readily come to mind. These mega-companies started *very* small, some of them in a garage. The market then propelled them to success through the profit signal. Even in India, wherever the government has accidentally allowed a product to stay out of its tight clutches, as with software development and exports, markets have exploited the *laissez faire* conditions and companies like Infosys and Wipro have grown to mega proportions very fast.

Market-driven entrepreneurship is therefore yet another secret of wealth generation in a free society. It is worth noting for the tenth time that this happens by the government staying *strictly out of this exercise*! A free society government doesn't bother about 'strategic' industry development and 'industry policy', or worry itself sick about the Dutch Disease. All a government has to do is to provide security, law and order, and some infrastructure. Then wealth will arise as if by magic. Entrepreneurs will decide what is strategic and sensible. Just leave them to do their job!

Creative replacement, not creative destruction

Entrepreneurship and innovation represents fearsome change to some people. New products don't simply add a new layer to existing products. They often kill earlier technologies. Most existing products become unprofitable as substitutes or competitors enter the market. Innovation threatens entire industries and the jobs of workers.

[25] The fact that our demand changes is not a very popular assumption in the literature of economics. I do not propose to challenge the simplifying hypotheses that have served economics very well till now, particularly since economics models particular demand 'functions', each time.

About 90% of the workers in the developed world produce their output today using technology that was *not even in existence* 50 years ago; and this cycle of change is getting shorter and shorter. Workers are forced to constantly re-skill, to re-tool. Given the tensions involved in entrepreneurship and innovation, Schumpeter called this process *creative destruction*,[26] particularly as some workers are likely to be permanently thrown out of their jobs.

I prefer to call this *creative replacement*, instead, since no destruction is involved, only replacement. Replacement with better technology is not a destructive exercise; it is creative. We are enabled by new technology to do more in lesser time: we then become *even* more productive and creative. I have outlined below a few key reasons in support of my newly coined phrase.

- We know that decisions taken by free markets are *good*. Self-interested decisions taken by each of us, including consumers and investors, carefully spending *our own money*, are surely the best possible decisions; far better than disinterested decisions taken by bureaucrats who spend *other* people's money. So if markets select a particular technology, then there is no destruction involved.
- It may appear to some people that there is too much change, or that markets are wasteful. We may ask: "Aren't free markets encouraging fashions and fads and a culture of consumerism and materialism thorough this process?" And yet the fact is that we look forward to our shopping trips when we can buy the newest or cheapest product. If a business were to continue producing outdated products, it would be doing everyone a great disservice. As to consumerism, no one compels us to participate in all fads and fashions. We are masters of ourselves: we participate in the market to the extent we wish.
- We can't have sympathy for workers who don't keep their skills up-to-date. No one is obliged to give us a job if we do not keep learning. If we do not prepare ourselves for new challenges then we must take the blame for our failure to get a job as technology changes. Indeed, new products are a great opportunity to advance our careers *provided* we are prepared for the change.
- We have no sympathy for the industrialist, either, whose factory has now to be shut down. Every machine used in production has its useful life and needs to be replaced as it gets worn out. By replacing a machine of an earlier vintage by a more efficient newer version, an industrialist ordinarily undertakes *incremental replacement*. Where necessary, with competition, the plant must be shut down. Businesses must be prepared for such change. Indeed, one would expect them to be geared to extract the greatest possible economic value from a particular vintage in the shortest possible time. Every good businessman must review his technological environment periodically and make decisions to maximise *future* profits. What has been invested is *gone*: it is a sunk cost never to count in any further decision. And when the economic life of an expensive machine is cut short prematurely by competitive technology, it does not mean that the earlier vintage did not serve its purpose or provide value in its own time. It means that its useful economic life is now *over* and it is time to move on. Sunk cost. Move on!! That is the well-understood nature of all investment decisions.
- As far as the society is concerned, we are *unequivocally* better off with new technology. Technology is the distillate of the world's best minds so why would we want to *deliberately* deprive ourselves of the best technology? We must harshly question *anyone* who asks us to do things inefficiently or to waste our effort, thus

[26] In Joseph A Schumpeter (1911). *The Theory of Economic Development*. New Brunswick: Transaction Publishers. 1993. One must add that this is a genuine masterpiece, despite some of its conclusions having been proved wrong.

making our already short lives even less fruitful. Indian socialists have prevented us for the most part since 1947 from using the most productive technology available to mankind. A pet fascination of Indian Luddites has been a thing called *appropriate technology* (appendix 7). Those who wish to live in the jungle are most welcome to buy land, build their own jungle, and to live in it. All a free society asks is that the choice of a group of individuals to go backwards in time is not imposed on the entire society. Let each of us decide what is best for us.

In summary, I don't believe there is any destruction involved with the production new technology and innovation in free societies. I would commend the adoption of my newly coined phrase!

4.7 Unplanned planning

One of the implications of the way free markets work is that *planning* for the future of an entire nation is not only futile, but badly counter-productive. We can plan our own little projects and even chart the uncertain course of our lives. And yet we know that we mould our future *only* to the extent we control it: there are too many factors outside our control. But shaping the future of a country is a different kettle of fish. It is *impossible*, and is best left to the freely adjusting forces of markets to create. **A free society's government leaves its citizens entirely free to do whatever *they* think is best for them.** It doesn't tell them what to produce or how to use their money. Given that free markets are *perfectly* capable of handling the most unanticipated changes and are beautifully 'designed' for change, why would anyone want to plan an entire country's economy, anyway?

We must learn to let well enough alone. A free society can put in place a good regulatory regime. A free society can even try to forecast what *could* happen in the future (see box below). But for a government to actually start *doing* something on the basis of such forecasts is dangerous; particularly if it intends to invest our money into government operated business. Wanting to plan a country's economic activity and to direct resources based on abstract planning models can condemn resources to destruction. As well, by damaging incentives in the markets, these misplaced resources and actions can *drastically* impoverish an entire nation.

Box 8

Forecasting and planning models

The best possible forecasts made by the most intelligent and capable human minds in the history of mankind have almost always been off-target by *huge* margins. And yet, tens of economists, like Don Quixotes, keep on forecasting business cycles, interest rates, inflation, and so on. When they are wrong, they write off their forecast as having suffered from an 'external shock'—a thing not anticipated in the equations of the forecaster.

It is the fate of such folks to get surprised by 'the East Asian Miracle' one day and the 'East Asian debacle' the next; by the 'great success of Russian planning' one day and 'the sudden collapse of the USSR' the next. I am a qualified economist, or at least my degree says so, but—or rather therefore!—I wouldn't wager two paisa on my ability to predict the future except at the broadest, and in a sense, intuitive, level.

Similarly, while computable general equilibrium (CGE) models are commendable works of economic logic which all economists should tinker with and use as an aid to macro-economic forecasting, they are *not* designed to throw useful light on a society's investment decisions. A good CGE model tracks what has already happened and even forecasts reasonably well for a year or two. But real economies diverge rapidly from there on. The unseen currents of change and innovation that rush about in a million directions below the surface of aggregated statistical indicators used in these models shift the model parameters in unpredictable ways. Social and political changes taking place *outside* of the economies being observed shock the models as well. No CGE model of 1990 could have predicted the impacts from the internet. Similarly, a CGE model of 1995 could not have predicted India's dominance in business process outsourcing, a dominance which arose from the failure of corrupt Indian officials' to block the export of value-added electrons. And to even dream that these models could have told us that Bangalore would become the hub of this Indian industry is an impossibility not worth considering, leave alone the possibility of these models predicting the dramatic events of September 11, 2001. Human models cannot predict the future. Period.

The problem is that not only past data, but even previous production 'functions', quickly become irrelevant. **CGE models can *supplement* the in-depth knowledge of highly competent policy makers.** These can assist in infrastructure decisions, for instance. But the blind use of such models to intervene in general investment will waste public resources.

God probably has a set of a billion simultaneous, conditional equations in *n* dimensions with a million variables each, into which trillions of angels continuously feed data about what each of us is thinking about or dreaming. And so God is perhaps well-equipped to plan an economy. But we don't have access to God's model or data sources. So let us stop acting God.

Socialists are quite gifted at rushing in "where angels fear to tread". The erstwhile USSR first started the madness of 'national planning' which lunacy then transmitted to India through Nehru. Nehru set up a Planning Commission in India almost immediately after independence, with the aim of orchestrating both public and private investment decisions. But long after USSR got out of its erroneous ways by spitting the dummy and completely collapsing as a nation, India continues to squander precious public funds into this fruitless exercise.

Planning is the visible display of socialist arrogance and megalomania. Misguided planners crunch numbers and imagine they see the future of the world in the palms of their hands! **I am entitled to comment severely against such delusions of grandeur since I had these myself!** In the mid-1980s I became a self-trained economist, having done an MA in Economics from Panjab University through a correspondence course. But there are *serious* pitfalls of being trained in economics in this manner. No mention was made of Hayek's significant work, for instance, and I barely internalised what the price system *actually* does. Mine was an amazingly half-baked degree. The reason I mention this is that as a result of this qualification, I foolishly imagined for a few years that it is quite reasonable to perform uncanny mathematical calculations to plan an entire economy. Very luckily, after learning economics first-hand for five years in the USA from outstanding teachers some years later, and then reviewing that knowledge in my mind from first principles, I have been separated from my delusions—even though I now possess the relevant mathematical training to understand and prepare sophisticated planning models.

We need to hark back to Hayek's paper at this stage. Hayek showed that anyone who tries to interfere with free markets faces a Herculean challenge. How can this person or organisation obtain even a crude approximation of the *local knowledge,* the detailed knowledge, of what is happening out there in the economy in each person's head? **Planning would need detailed knowledge of the "kind which by its nature cannot be entered into statistics and therefore cannot be conveyed to any central authority in statistical form"** (Hayek). As Hayek further explained:

> The statistics which such a central authority would have to use would have to be arrived at precisely by abstracting from minor differences between the things, by

> *lumping together*, as resources of one kind, *items which differ* as regards location, quality, and other particulars, *in a way* which may be *very significant* for the specific [local] decision. It follows from this that central planning based on statistical information by its nature cannot take direct account of the circumstances of time and place. [italics mine]

In other words, a central planner cannot even begin to understand what is happening in the *real* world at the level of detail necessary to plan. And if the planner doesn't know *all* the *relevant* circumstances, how can the planner decide what needs to be done by *each* of us at each point in time? How can the planner's decisions possibly be optimal? Instead, these decisions are *guaranteed* to be misallocations, thus squandering our limited resources. **As such, no economist worth his salt should associate with the Planning Commission**.

The only saving grace is that Mahalanobis, who strongly influenced Nehru's Planning Commission, particularly its second Five Year Plan, was *not* an economist, a mere physicist and statistician. It seemed certain to him, with mathematical equations crackling like electricity inside his head, that mathematics would tell him how India should be run. Actual economists like Milton Friedman who tried to advise Nehru were completely ignored.[27] The good economist B.R. Shenoy left the Commission during its early years. The great economist Jagdish Bhagwati who warned against the centrist approaches was also ignored, and so he left India. The Commission's secretariat then became the citadel of *clairvoyant* pseudo-economists and ill-trained IAS officers who have been happy to 'manage' its astrological functions. They go to work each day and use the services of their local parrot to pick a card from among those laid out on their desks—that is how they decide where to invest public funds.

I have two recommendations at this stage. Indian physicists should in future try to focus on physics; and India's bureaucrats should do bureaucratic things. Neither should dabble in the seemingly obvious area of economics which is surprisingly difficult and takes a lifetime to master—being in the end a specialised art form. Gandhi, with his great intuition about right and wrong, saw through the hoax of planning very early. He wrote in a message to Amrit Kaur on 19 June 1939 on the National Planning Committee set up by Nehru in 1937, as follows: "**the whole of planning is a waste of effort**... It has appeared to me that much money and labour are being wasted on an effort, which will bring forth little or no fruit".[28]

In supporting socialism and 'planning' our Planning Commission has *significantly* enhanced poverty in India *and* reduced our freedoms. While Indian socialists are better behaved now after almost bankrupting us in 1991, an end to socialist arrogance is nowhere in sight. I now call upon to our astrological leaders sitting in the Planning Shop in a fairly abrupt manner, thus: *Ye Planners of India, shut down your silly Planning Shop and go home! You've done enough damage to India to last your lifetime. Go home and rest your feverish brain.* [29] A free economy can undertake all the 'planning' it needs in the most unplanned and elegant manner through the freely available services of the Invisible Hand.

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[27] See http://www.indiapolicy.sabhlokcity.com/debate/Notes/friedcopy.html

[28] Quoted in S. Gopal (1975). *Jawaharlal Nehru: A Biography*, vol. I. New Delhi: Oxford University Press. p.247.

[29] I cannot understand why a person of the calibre of Montek Singh Ahluwalia has chosen to support the Planning Commission by participating as its Deputy Chairman. I am also concerned about his perspectives on India (eg, in "Understanding India's Reform Trajectory: Past Trends and Future Challenges". *India Review*. October 2004. pp. 269–277) which seem at times to be rather mechanical, not grounded in arguments of freedom.

Notes to supplement Chapter 3 Problems with our Constitution

<u>Note</u>: The following text was originally part of chapter 3 in a draft of *Breaking Free of Nehru*. This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

Box 9

Personal laws compatible with freedom

Personal law in India includes numerous religious laws enacted by Parliament, as also the *Special Marriage Act*.[30] While the case I discuss below is largely hypothetical, and even then it can be prevented, it does illustrates some of the problems under the current personal law regime. Under the current set of laws, the following apply.

- In order to register marriages, s.15 of the *Special Marriage Act* requires that 'a ceremony of marriage has been performed between the parties and they have been living together as husband and wife ever since.'
- Under s.5 of the *Hindu Marriage Act*, 1955, "A marriage may be solemnized between any two Hindus". Therefore a Hindu cannot marry a non-Hindu under the Hindu Act.

Therefore, if a Hindu man were to marry a Muslim woman using the services of a liberal-minded Hindu priest, their marriage would be invalid under the *Hindu Marriage Act*. It would also immediately be invalid for registration under s.15 of the *Special Marriage Act*. In the case of Sanjay Mishra v. Eveline Jobe (AIR 1993 MP54), when a Hindu man married a Christian woman under customary Hindu practice, the court found that such a marriage could not be registered under the *Special Marriage Act*. This can be avoided if the couple do not come for registration under s.15, but re-marry under sections 5 to13 of the *Special Marriage Act*. Let us now assume that the Hindu husband abandons his Muslim wife during the 30-day period required for a notice issued under s.5 of the *Special Marriage Act*. Should that happen, the abandoned woman is not protected under *any* law in India. The *Muslim Women (Protection of Rights on Divorce) Act*, 1986 only covers Muslim women who are married according to Muslim law.

This case raises a fundamental question: why should anyone be bound to use only a limited set of *inflexible* customary or secular agreements which are protected by the state? All that citizens want in the end is a certainty that that their marriage is recognised. A way to do that would be to enact a *minimum standard* for personal law, such as a ***Marriage and Marriage Norms Registration Act***.

Under this law, any religious or non-religious organisation or a group of persons, including an individual couple complying with the *minimum (outcome) standards* prescribed by this Act, would be allowed to register their set of *Norms* with the government.

- The current system clearly gives monopoly rights to *particular* brands of religion.

[30] Its title is a misnomer, as there is nothing 'special' about it. It is best labeled *The Indian Secular Marriages Accountability Standards Act.*

These privileges will be unwound by this law under which a range of religious norms would be registered, with their uptake being determined by the market for marriage norms. The *Hindu Marriage Act* could be repealed and registered as a *Hindu Marriage (type 1) Norm*, providing it does continue to meet the minimum outcome standards. This would leave the field open to many other Hindu competitors wanting to supply other Hindu Norms.

- The *Special Marriage Act* would become one of the norms.
- A wide range of other *Norms* would potentially be available, eg, Hindu-Muslim, Hindu-Christian, and all other combinations.
- Couples could create and register their *own* negotiated accountabilities (say, *Norm #X*). Let people in a free society be free to design their own cultures.

This list of all potentially thousands of different registered *Norms* would be maintained on the internet, each Norm having met the minimum standards. **This would also ensure that the government gets out of the business of enacting religious laws altogether.** The UCC would become totally irrelevant since people would focus on establishing high quality *minimum standards* and move away from an obsession with uniformity.

A marrying couple will be required under this legislation to cite a registered *Norm* at the time of marriage. The priest, lawyer, or notary public authorised to issue the relevant standard form certificate will record the Norm's identification number, and confirm that *all* steps required under that *Norm* have been met, including both parties acknowledging through their signatures that they understand their accountabilities. That will be a binding legal contract or sacrament. In the hypothetical example of the Hindu-Muslim couple, the priest who married the couple would issue them with a certificate of compliance under their selected Hindu-Muslim *Norm*.

Box 10
Preliminary sketch of a new Indian Constitution

The Social Contract and Constitution of India

Please note: this is a sketch, not a suggested constitution!

The new Constitution can start off by saying things like:

Agreement to work jointly as Indians

- We, the consenting adults of India, jointly agree to transfer *some* of our individual *sovereign powers* of self-defence and enforcement of contracts to governments in India and its states, elected by us from time to time through equal representation.
- We come together as equals in law with the aim of ensuring the security of India's national boundaries and preserving and protecting our individual freedoms. We agree to this contract because we believe it is the most effective and economical way to ensure our security and safety, freedom, prosperity, and our pursuit of happiness.

Our freedom and our accountability

- We assure ourselves though this agreement to form the nation of India, of *all* the things that *freedom of action* allows for. These include, but are not limited to, things like:

  - the right to own our property and property bequeathed to us. In particular, our land cannot be taken away for any public cause except through compensation that is higher than market value and includes sufficient compensation to fully relocate and re-establish ourselves elsewhere in a place with broadly similar attributes;
  - freedom of expression including freedom of religion (this being the last mention of the word 'religion' in the laws of the land);
  - freedom of trade, manufacture, and livelihood; and
  - justice including the right to an expeditious fair trial and *habeas corpus*. If civil or criminal charges brought against us by the state are subsequently found to be baseless, we will be compensated by the state for the loss of our time (hence life) spent during the trial or in prison at the equivalent value of time of the highest police officer in the land, as well as other loss that we may incur in consequence such as loss to our reputation.
- We expect to be almost entirely left alone by governments to our own efforts, actions, and choices as long as these do not adversely impact on others physically. In particular, we don't want the government to foist charity on us, nor paternalistically look after our welfare. While there will always be some of us who will need the support of government in certain dire circumstances, those of us who will need to receive support will do so as *equals* and only to the extent we cannot support ourselves.
- In the normal course of events, we don't want government functionaries to inquire into our personal choices and habits, such as what and how we eat, what we wear and how we dress, and so on. We agree that certain general restrictions on our freedoms can be placed in public places to ensure decorum.
- **We affirm our commitment to individual accountability for each of our actions.** In doing so, we agree that the government will inquire into and provide us with appropriate justice in the rare instances when we have reason to believe that others have failed to uphold their accountabilities and liabilities.
- Our freedoms can be severely diminished by a government only where we fail to uphold and take responsibility for the consequences of our actions, or where we undertake actions that have been prohibited by us, jointly, through our laws.
- These are the emergency provisions [*To be listed in full! It is important to translate, virtually untouched, the existing Emergency provisions that were incorporated by the Janata government through the 45th amendment, after the bitter experience of the Emergency. These provisions should include among the reasons for an Emergency, 'armed rebellion', and exclude 'internal disturbance' that was used by Indira Gandhi to declare the 1975 Emergency.*]
- The Supreme Court of India will be the arbiter, either when questioned by a citizen or on its own volition, of whether a legislation enacted by Parliament is compatible with our individual freedoms. A law that is incompatible with freedom could be declared unconstitutional, either in whole or in part by the Court.

The use of our taxes

- We jointly agree to pay, in a manner and amount that we are to mutually decide through our elected governments each year, taxes or rates that are necessary for performing the core functions of our government, these being: defence and internal security, and justice and the enforcement of contracts.
- Should money be left over after fulfilling these core functions in the most effective and economical manner possible, the government will then perform second order primary functions: equality of opportunity and a few critically needed public goods such as infrastructure.

- Should money be further left lover after achieving these primary functions, the government will hand back that money back to the people, unless there pressing and unavoidable reasons related to our freedoms that a government must address.
- Some of the specific outcomes we seek from our government in return for our money include, among other things:
  - The laws made by our governments are few, very brief and simple, and without ambiguity.
  - Laws prescribe the minimum outcome standards, not the process of achieving the outcomes.
  - There is a single law relating to all prohibitions, listed in alphabetical order, with an index of alternative words.
  - There is a clear, simple, and expeditious process for investigating crimes and civil complaints effectively.
  - There are clear rules of compensation for failures of individual accountability in civil and contractual matters.
  - Conditions are created where courageous, knowledgeable and responsive fellow citizens are willing and forthcoming to contest elections to represent us.
  - The machinery of government is effective in delivering justice and enforcing laws.
  - Every person who sets foot in India legally is accorded our highest standard of justice.
  - Anyone who is illegally present in India is investigated, and if regularisation or deportation is not an option, incarcerated for life.

Framework of governance

- Every adult citizen will be accorded equal representation to in the law-making process through a first-past-the-post Westminster system of democracy to be specified through a detailed law.
- Referendums will be used where these are specified in this Constitution or, alternatively, deemed necessary by a majority of our representatives.
- The governance structures will ensure that all decisions concerning us are taken at the level of government closest to us and which therefore are best informed.
- Since allocation of subjects between different levels of government will evolve over time, particularly through changes in technology, periodic joint legislation will be enacted between the centre and states on negotiated matters of jurisdiction These subjects are therefore not included in the Constitution.
- People in any geographical part of India can form a new state if they are not happy with being part of an existing state, upon receiving sixty per cent of the valid votes polled through a referendum conducted in that part of India, with at least fifty per cent of the people voting. Thirty per cent of the voters in the geographical area of the proposed new state can petition the Election Commission for such a referendum, which will first verify the authenticity of the petition. Alternatively, it can be initiated by a resolution passed by thirty per cent of the elected representatives. Such a referendum will have a campaign period of two years. *Any* violence from the proponents of the new state will nullify the referendum and a fresh petition will need to be lodged subsequently after a gap of one year.
- People in any geographical part of India can ask to form a new country if they are not happy with being part of India, upon receiving seventy per cent of the valid votes polled through a referendum in that part of India, with at least sixty per cent of the people voting. Fifty per cent of the voters in the geographical area of

the proposed new country can petition the Election Commission for such a referendum, which will first verify the authenticity of the petition. Alternatively, it can be initiated by a resolution passed by fifty per cent of the elected representatives. Such a referendum will have a campaign period of five years. *Any* violence from the proponents of the new country will nullify the referendum and a fresh petition will need to be lodged subsequently after a gap of two years.

[*Note*: *These conditions are far more stringent than the conditions of the 1995 Quebec referendum which asked if Quebec should secede from Canada. A civilised free society must allow the option of secession. Allowing democratic debate and process will generally take the wind out of violent terrorist movements. Indeed, even if some people do succeed in petitioning for a referendum, it is unlikely that people will want to leave a genuinely free country. Lastly, even if an area does vote to secede, an India committed to life and freedom will not force at gunpoint any group of people who don't want to stay with India. This clause is* the single most important *touchstone of freedom. If we do not have it, we can't be a genuinely free nation, for no nation can supersede regard for human life.*]

Commencement of this Constitution, and how it can be changed

- This Constitution will come into force on a declared date, after having received 51% of the valid votes polled (with at least 50% of the electorate voting and casting a valid vote) in a referendum to which it is put to.
- Coterminously, legislation that delivers on each of the above outcomes and processes will be separately and simultaneously enacted by Parliament. The Constitution of 1950 will be deemed to be repealed upon this new Constitution coming into effect.
- This document, after being enacted in a referendum, will need to be signed by each adult citizen of India who wishes to enrol in the electoral roll. The citizen's consent will effectively be the 'licence to vote'. In order for the Election Commission to allow a person to sign this document, the person will have to provide a certificate of citizenship, which will also include proof of age. The proof that the citizen has then been given a copy of this document in the language of his or her choice, and signed appropriately on this contract, will be scanned and filed by the Commission electronically in its archives.
- This is how this Constitution can be changed: a 51% vote in a referendum with at least 50% of the electorate voting *and* casting a valid vote.
- This Constitution will automatically expire on completion of 30 years of its existence. A new Constitution will need to have been prepared by the next generation of Indians after an extensive review, through a similar 51% referendum, well before these 30 years expire, in order to ensure a smooth transition.

Oath (required to be signed by each citizen in order to register as a voter)

I, a citizen of India, solemnly affirm that as a responsible citizen I will abide by *all* laws enacted on my behalf by governments elected by me, and pay all taxes required of me. I agree to be held fully accountable for any violation of these laws or non-payment of taxes. If I disagree with a law, the only recourse I have is to create a new law through campaigning against the existing law and changing it through the appropriate legislative body. Until that is done, I will comply both with the letter and spirit of *all* laws of the land, even if they seemingly violate my freedoms.

Signed: Full name, parents' names (both), address, date, venue.

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Notes to supplement Chapter 4 Causes of political corruption in India

Note: The following text was originally part of chapter 4 in a draft of *Breaking Free of Nehru*. This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

Box 11
Media's role in advocating appropriate salaries for political representatives

Increasing the salaries of politicians is unpopular in all countries, since very few citizens are able to intuitively grasp how important it is to pay for good-quality representation. There is a mistaken belief in the general populace that the only job of a politician is to make long speeches and wave at people. It is hard for people to understand that **good politicians have to be geniuses in people management and communication, and grandmasters of policy.** It is hard to explain to them that such outstanding talent doesn't come cheaply. Despite this lack of understanding among the general public, I notice that the mainstream media in Australia periodically speaks up for setting appropriate wages for politicians. The following extract from an article in *The Age* shows how the media can play a constructive role in this debate.

"***Transparency needed.*** By Katharine Murphy. September 8, 2006

"AUSTRALIA needs a more honest debate about the pay and perks of our politicians instead of the strange smoke-and-mirrors exercise that passes for public discussion now.

"The simple fact is senior federal politicians are underpaid compared with their private sector counterparts.

"John Howard earns a base salary of $118,950, a "salary of office" of $190,320, and an electorate allowance of $27,300, bringing his annual pay packet to $336,570. Compare that with a chief executive such as Macquarie Bank boss Allan Moss, who pulls in $21 million.

"Federal politicians get around their relatively low salary by bumping up the plethora of allowances and entitlements that are much harder for the public to keep tabs on. These little treats are rarely announced. The process looks furtive and secretive and dodgy—and it is.

"If Allan Moss deserves $21 million, then the bloke or (God forbid) woman actually running the country, who decides whether we are at war or peace, whether we regulate or leave it to the market, whether we embrace the world or turn away, perhaps deserves a bit more than $330,000."

Notes to supplement Chapter 5 Why is our bureaucracy so inept?

<u>Note</u>: The following text was originally part of chapter 5 in a draft of *Breaking Free of Nehru.* This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

A short history of public services in India and England

The Indian system of public administration is thought to be one of the world's oldest, barring perhaps the Chinese. In 322 BC "Chandragupta … established a complex bureaucracy to see to the operation of the state and a bureaucractic taxation system that financed public services".[1] Among the more recent advances in public services in India, the model of land revenue collection designed by Sher Shah Suri in the 1540s is acknowledged as a major milestone in systematic governance. The Sher Shah model was then adopted by the Mughals and later by their successor—the East India Company.

The East India Company was one of the world's oldest joint-stock companies; hence a pioneer. Like any good modern private company, it had built its own set of rules and procedures by 1757 to ensure that business policies laid down by its Board of Directors were complied with across its entire trading business. But after Clive's political triumph of 1757 at Plassey, the Company was faced with the entirely new challenge of governing vast numbers of people and extensive areas of land, initially only in Bengal. It became a private company that 'ruled' people: a unique combination. It had to quickly come up with policies to deal with this completely new role. The bureaucracy it invented in response to this challenge was perhaps the first modern bureaucracy in the world. This bureaucracy was not accountable to the whims of kings, but to a private company's Board of Directors; it developed as a private sector bureaucracy.

The Company started by creating a Covenanted Civil Service (CCS) whose members signed 'good behaviour covenants' with the Company's Court of Directors. With a view to keeping wage costs low, members of this service were paid relatively modestly but they could ply their own commercial business on the side and thus make commissions on their trading activities. As would be expected, this model led to serious conflicts of interest. Given the lucrative opportunities created by the political patronage of their commercial activities, corruption began to flourish in British Bengal. That Robert Clive was impeached (unsuccessfully) on this ground says something about the enormous possibilities of corruption at the confluence of India's feudal culture and a modern joint stock company which did not have checks and balances for its new role as a government.

The very concept of corruption being an impropriety was perhaps recognised for the fist time in India at this stage. Officers had been expected to use their office to coerce villagers into submission in all previous monarchical regimes. The British officers' corruption was quite customary for India till then; no one thought it was improper. Chanakya had noted such natural tendencies among officers in his

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[1] John P. McKay, B.D. Hill anid J. Buckler (1988). *A History of World Societies*.Vol. 1. Boston: Houghton Mifflin Co. p.74

Arthashastra 2,400 years ago ("The *Mahamatras* are like fish. Does one know, when the fish is drinking water?").

However, the expectation from public officers was changing. The change started in England where the *Magna Carta* of 1215 instilled some discipline in the king's officers. The king of England agreed through this charter that 'No Constable nor other Bailiff of ours shall take the corn or other goods of any one, without instantly paying money for them.' This was revolutionary, as it created a new expectation that a public servant was only to live off his own salary.

Therefore the corruption in British Bengal was not commented upon adversely in India. It was in England that concerns were raised about it. The British Parliament took about a decade to make he *Regulating Act* of 1773. This Act created a Governor General for British India. A subsequent *India Act*, 1784 laid the specific principles of governance of India by the Company. **We cannot blame the British Parliament for taking so long to do something about corruption in India (it at least took some action: India's Parliament, on the other hand, actively encourages corruption!)**. The British Parliament was relatively weak at that stage, and also unrepresentative. It was only in 1688 that it had gained the authority to continue to assemble without long interruptions imposed by British kings.

The second Governor General of British India, Lord Cornwallis (1786-93) seems to have laid the foundations of the modern Indian public services. He split the Company bureaucracy into two parts: the political branch responsible for civil governance, and the commercial branch responsible for its commercial activities. On entry, an officer of the East India Company had to opt for one of these branches. Commercial officers retained access to commissions on their trading activities. Those who opted for the political branch were compensated by Cornwallis through a significant hike in salary. With this, corruption came to a grinding halt in the higher echelons of British India's government. Till independence, these higher echelons would distinguish themselves by remaining spotlessly clean. Indeed, this continued well into the early years of independent India even as our politicians were starting to become super-corrupt.

The political branch attracted talented British middle-class youth with scholarly tastes and policy interests. Wonderful writers emerged from amongst them who penned elegant and largely accurate accounts of the lives of ordinary Indian peoples. In some cases, these civil servants proved pivotal in the development of local Indian dialects and languages. They compiled dictionaries; even created scripts. The role of the District Collector, perhaps found only in India, also further evolved and became the hub of British administration. This office was particularly important given the poor means of communication available in those days, with the attendant need to empower local officials to make decisions on the ground without waiting for prior approval.

To streamline the processes of administration, Cornwallis created a civil service manual as part of the *Charter Act*, 1793. Carrying on Cornwallis's foundational work, Lord Wellesley set up the Fort William College in Madras in 1800 to induct new entrants to the CCS. This college was moved to England in 1805 and became the Haileybury College. (A tidbit: among the teachers at Haileybury was the famous Thomas Malthus who was its first professor of Political Economy and taught British India's civil servants from 1805 till his death in 1834. They were also taught the latest economic and political thought, including Adam Smith.) The Lal Bahadur Shastri National Academy of Administration at Mussoorie continues the tradition established in 1800, imparting a two-year induction package to new recruits.

Given increasing concerns that appointments to the CCS by the board members of the Company were not made exclusively on merit, the Company threw the Indian civil service open to competition in 1853. This was a significant reform that even Britain would not implement in its own government for the next sixty years. In 1854, William Gladstone commissioned Northcote and Trevelyan to report on the future of the Civil Service in England. They studied the British East India Office as a model, and a few other government offices in England and recommended that civil servants in England should also be recruited through an open competitive examination, and that promotions should be made on merit, not on the basis of seniority. The frequently cited precepts of an apolitical permanent career service, being not only recruited without political patronage but whose members offer impartial advice to the political leadership, arose from this report. When Gladstone became Prime Minister in 1868 he implemented some of these recommendations. Competitive entry started in England only in 1914.

In the meantime, the British India civil service had kept up its lead in public service reform. The *Indian Civil Service Act* was made in 1861. Next, the recommendations of the Public Service Commission of 1886-1887 were implemented. Later, in the 1910s, in response to Indian nationalists, the British allowed Indians to take the entrance examination for which they had to travel to England. From 1922, India was made an examination centre. The number of Indians in the ICS began to steadily rise. At the time of independence, in addition to the generalist civil service, the ICS, which provided high level governance functions, India had evolved nine other central services which managed specialist areas.

The point of sketching this history in some detail was to highlight that **by the mid-1800s, the Indian civil service was perhaps at the cutting edge of public administration in the world.** Regrettably, India's public services have stagnated since then while the rest of the world has continued to evolve and reform. The design of the IAS today is based almost entirely on the model of 1853. The most important public administration reforms in the world since then include the abolition of tenure in the top echelons of the public services, and bringing in significant political strategy alignment. Let's explore these changes.

The agility of modern public services

7. Contestability of policy advice to political leaders

By the 1970s, the bureaucracy was being seen in Australia as being "too elitist, too independent, too unrepresentative and insufficiently responsive."[2] It was the sole provider of 'small p' policy advice to Ministers, and much of that advice was precedent-based and merely reinforced entrenched bureaucratic practice. The reforms of the 1970s and 1980s in Australia marked a move away from bureaucratic monopoly over policy advice. As Professor John Halligan notes,

> The reaction of Labour governments, in particular, Whitlam's (1972-75), and Hawke's (1983-92), was to challenge the public servants' monopoly over advice to ministers and to question their indispensability to the processes of government. The direction was made explicit in the White Paper Reforming the Australian Public Service (1983): 'the balance of power and influence has tipped too far in favour of permanent rather than elected office holders.'[3]

A moment's reflection will show us that the delivery of a government's policy or commitments does not require a permanent civil service, or even *a* civil service at all. Anyone, and any organisational form that can best deliver results, will do. The

[2] John Halligan (University of Canberra) in "The Australian Civil Service System", paper prepared for presentation at Civil Service Systems in Comparative Perspective, School of Public and Environmental Affairs, Indiana University, 5-8 April, 1997. See: http://www.indiana.edu/~csrc/hallig2.html.
[3] Ibid.

diagram in the beginning of this chapter shows that public services are merely one of the many potential vehicles for delivery of policy. Reverting to the metaphor of a ship and ship's captain, we—the country's (ship's) owners, hire a government (ie, the ship's captain). The captain should then be allowed to hire *whomsoever* he wishes, to advise him on the ship's day-to-day plans and logistics, since the captain is fully responsible to take the ship to its agreed destination.

There is no inherent virtue in *policy neutrality* at the senior levels in a civil service. A political party elected to government needs specialist leadership best suited to delivering its election commitments. If that means finding people with a strong understanding of the theory and practice of freedom, as would be the case if a liberal political party were to get elected in India, so be it. Bureaucrats or advisers who can best operationalise the delivery of freedom to us must then be found. In any event, no political leadership should be constrained in selecting its managers only from amongst a tenured service like the IAS comprising largely of socialist die-hards.

Further, the proponents of an 'impartial' public service presume, rather disingenuously—even dangerously—an *independent* role for the unelected bureaucracy in determining the public interest. Bureaucrats are our sub-agents, only indirectly accountable to us through our political representatives. We must therefore leave it to our agents to decide whether they want to use them or hire alternative vehicles. They can't be allowed to be independent arbiters of policy. We can never trust bureaucrats to make *independent* judgements for us, anyway, given what we know about their self-interest! **We need to monitor them closely, not flatter them by giving them independence.** Also, only by handing over the *full* control over the bureaucrats to our chosen political representatives can we precisely attribute the success or failure of a policy outcome to our representatives. If a ship hits an iceberg and sinks, we know whom to blame: namely, the captain of the ship, not its sailors. **This method would similarly ensure a clear line of sight for accountability in a democratic political system.** Politicians should not be in a position to excuse themselves from responsibility by taking the plea that the bureaucracy they were 'saddled with' was unresponsive. In the modern governance system, therefore, politicians are fully empowered to undertake *radical surgery*, if necessary, to fix bureaucratic incompetence, sluggishness, or policy incompatibility.

Public service leaders in Australia were originally expected to be policy neutral. This has thankfully changed. Due to the contractual nature of senior executive appointments, public service leaders are increasingly hired on their ability to deliver a government's *particular* policy platform. Neutrality in policy (whether 'big P' or 'small p') preference is no longer valued, and neither should it be. Policy delivery at senior levels must be unequivocally based on the political policy direction; this does not preclude a role for the professional policy analysis of *all reasonable options* during policy formulation.

Radical changes to the bureaucratic leadership consequently take place in Australia upon a change of government, as the policy advisers are aligned to political strategies. Such things have been happening in the US system on a grand scale from a long time. The USA has an unfortunately titled 'spoils' system under which around 3,000 senior positions change with every new President, with up to five levels of political appointees between career public servants and political leaders. This change is arguably excessive, but the principle underlying it holds good.

The policy contestability process has an even more important implication in Australia. Politically appointed Ministerial advisers or Ministerial consultants have been given many of the functions formerly at least partially performed by senior public servants such as assessing the potential political impacts of a policy. These advisers, whose job-duration is coterminous with their Minister's job, are usually subject-matter experts who understand the political philosophy behind their Minister's policy direction. These advisers support their Ministers in formulating 'big P' policy and also help to monitor, on behalf of their Minister, policy implementation agreed with their relevant departmental secretary.

When such contestable policy advice is used appropriately by Ministers, governments are enabled to exercise comprehensive control on the direction, effectiveness, efficiency, and responsiveness of the governance that they have been elected to provide.

The seven reforms outlined above, taken together, enable Australian governments to provide a much higher quality of service at lower cost than could have been imagined with the earlier sluggish, tenured system. In consequence, the perspectives of Australian bureaucrats are significantly different from those of their Indian counterparts. For instance, Indian bureaucrats still see themselves as 'impartial' observers of a government's policy programme, an independent locus of power 'sinecured'—as in a sinecure being assured—under the Constitution. In other incarnations they see themselves as flotillas scurrying about to 'fix' the country's problems on their own, bravely overcoming the hurdles put up by corrupt and incompetent political representatives. They condescendingly view Ministers as a nuisance to be tolerated, if not actively resisted. I do acknowledge that legitimate concerns exist about the integrity of Ministers in India, and perhaps these corrupt people do need someone to watch over them. But how about *us*, the citizens, doing *our* job well and holding politicians to account? It is not a sub-agent's job to hold the agent to account; let the principal stop snoring and step forward! On the other hand, in Australia, bureaucrats work hard to advance, even anticipate, the policy commitments of people's representatives. This is, of course, made much easier by the exceptionally high quality of Ministers they get.

The next generation of reforms

Significant efforts are *constantly* underway in the West to further improve governance and the public services. The aim is to make the public services an even more useful instrument to protect the freedoms of citizens. In a speech he made on 24 February 2004, the former Prime Minister of UK, Tony Blair outlined elements of the next generation of public service reforms planned for the UK. Some of these are cited in the box below. The difference between these reform ideas and the current fossilised state of the Indian bureaucracy is so stark as to be alarming!

Box 12

Direction of future public service reforms in the UK

To create an e*nabling government,* the UK has decided to shift focus from bureaucrats providing policy advice to the better delivery of outcomes through better project management. Details include:

- A smaller, strategic centre to be focused on strategic leadership rather than micro-management.
- Jobs in finance, information technology and human resources to be filled by people with a demonstrated professional track record.
- A civil service open to the public, private, and voluntary sectors, encouraging interchange among them through recruiting extensively from outside the civil service to senior posts, and making it *even* easier for civil servants to move into the private sector and back again.
- A more innovative approach to policy. On generating the best ideas, Tony Blair set a new standard for good policy advice when he said:

> I find too often that civil servants have not put forward a proposal either because they thought it would not be acceptable politically or because it simply seemed too radical. I always say be bold in putting forward proposals; don't be afraid to recommend ideal solutions that look impractical; **it is my job and the job of ministers to decide whether something can and should be done but our thinking will be the poorer if too many ideas are ruled out before they get to us.**

- Organising government around problems, not problems around government. This means more project working, more teams collaborating across departmental boundaries, and more shared budgets cutting across departments.

In this context, in October 2007 I participated in a workshop to explore ways of making the public services more agile in Victoria.[4] Significant research underpins the exploration of this issue in Victoria. I have no doubt that whether the public services in the West become more agile or not, they will continue to *constantly* reflect on their performance and adapt to, if not anticipate and shape, the future. While these countries stretch the frontiers of best-practice to the limits, we in India watch the rest of the world with bleary eyes and cynicism, completely disinterested. For ours is a special case. We have given up without trying: we are mentally defeated before the battle for excellence has even started.

Having got a bird's eye view of some modern bureaucracies and their forthcoming reforms, it is time to examine the India situation in some detail.

[4] Search for the phrase 'agile government' at the website: http://www.ssa.vic.gov.au/

Notes to supplement Chapter 6 Unleashing India – a blueprint

<u>Note</u>: The following text was originally part of chapter 6 in a draft of *Breaking Free of Nehru.* This material is the residue remaining after condensing the chapter. The text provided here was not subsequently edited hence may contain inaccuracies.

The Freedom Agenda for India

ADDED ON 10 October 2012 FROM A PREVIOUS DRAFT SINCE I HAD ACCCIDENTALLY FORGOTTEN TO INCLUDE IT HERE.

Agreeing to a blueprint, and taking the message to voters

At least five years of hard work are a pre-requisite for such a group of people to get elected to finally deliver a Free India. Presuming that you and I can together find another 1498 outstanding leaders ultimately willing to contest elections, the next challenge would be to get the Freedom Team to agree to a high level policy platform supported by a strategic blueprint well in advance of future elections. To ensure a powerful blueprint, a Shadow Cabinet comprising of future candidates who are particularly knowledgeable in specific policy areas would need to be assembled. This Shadow Cabinet would ideally be three layers 'deep', to provide for drop-outs at election and for those who lose elections.

The blueprint including *all* policy decisions and high-level strategies would perhaps take about two years to prepare. It would likely run into a few hundred pages, and be made available for comment on a public website. Ninety per cent of the thinking would have to be done well before someone from the Freedom Team became Prime Minister. When someone from the team finally does get to become Prime Minister, it would be time for action: no more sleepless nights thinking, planning, and hoping. The clarity of thought expressed in the blueprint would prevent mayhem from breaking out when the Ministry finally assembles. The blueprint will also inform a short and crisp election manifesto and help voters to clearly understand what the Team or party stands for.

This blueprint would feed into a major education campaign to run for three years prior to elections. The Team would go from village to village and explain:

- what is wrong today;
- why it is so;
- what can be done to improve things;
- how the necessary changes can be brought about;
- who will bring about these changes (local members of the Team to be introduced);
- when will this happen (when the Team will be ready to contest elections); and
- why the Team (or party) is best qualified to bring about these changes.

Going into an election under the banner of freedom without sufficient awareness among the voters will doom the effort to failure. **Freedom cannot, and should**

never, be forced upon anyone. Persuasion and building a shared understanding is the key. At the end of these five years of preparation, at least 300 outstanding candidates should win elections[1] and the party's Prime Minister can start to *systematically* implement the *Free India agenda*.

I am proposing my blueprint below. Of course, if I were to ever be the real Prime Minister, my Team's or party's blueprint would differ from this in many ways, even though the underlying principles would remain the same. This blueprint does not take into account the detailed knowledge of many policy changes that are already planned in India. This can only be a high-level sketch. Due to space constraints, I have focused this blueprint on a few key matters within the direct control of the central government; state government matters are touched upon only in passing. I have also left out of the blueprint most of the economic, labour market, and finance sector reforms, that are needed given that there is an enormous literature on these subjects from the liberal perspective. Matters such as foreign relations and defence policy are also not touched upon here: the underlying principle for these areas would be to promote the greatest good of mankind but to defend the country against any aggression very strategically and without thought of one's life.

A word of warning. If you are not used to the intricacies of public administration and governance you could find the following sections somewhat tedious and possibly too detailed. I am mindful of the need to simplify. However, given my awareness of where we stand on certain key issues, I am convinced that these details are the minimum that we need. Freedom doesn't come from shouting slogans like the socialists do. It calls for great professionalism and attention to detail. So do please wade through passages that you may find tedious. If necessary, you may consider stocking yourself with a thermos full of hot coffee at this stage!

1.1 Reforming public finance

Having set things in place to ensure that sufficient revenues are available for its first three years, public finance reforms will be given urgent attention. It is important to increase the tax base in India to a level that permits its governments to provide *high-quality* services. **The basis of our taxes is our social contract, or Constitution, founded on an agreement between *real* people to pay taxes in lieu of services received.** Public funds will therefore be raised by asking each *real* individual who is able to, to pay for the services the country provides that individual. Companies or associations of people will not be taxed in the longer term.

Progressive taxation is the correct way to tax citizens in a free society. Today, on the other hand, many asset investments attract significant tax exemptions, and therefore we effectively subsidise the rich! I know that we subsidise the rich agriculturists. While I don't have readily available data for India, in the USA investors are taxed particularly lightly: that is incorrect. For instance, one of the world's richest and ethical persons, Warren Buffet, complained in the press in June 2007 that he paid only a 17.7% of his $46 million income in 2006 as tax, while his employees paid 32.9% of their income as tax. This is wrong.

As a constitutional monopolist, a government can, and should, price-discriminate for its services based on a citizen's the *ability to pay*. The rich actually receive a disproportionately higher protection of their assets from the armed forces and police, and cost our justice and security system relatively more. During war, the army tends to protects large factories to the relative neglect of the houses of the poor. The rich also

[1] A similar thought experiment or blueprint would be needed for each state Assembly, but constraints of space mean I must leave that for another day.

use our airports, electric supplies and roads far more, and pollute more than others. Further, the marginal utility of money declines steeply: a rich man cares far less for Rs.1000 than does a poor person. Therefore, income and wealth tax will continue to be progressive, not flat. **The general taxation principle would be: the poor should pay no tax, the moderately well-to-do should pay modest levels of tax, and the rich should pay relatively higher levels of tax.**

These taxes will be streamlined and simplified. Systems to radically improve tax collection will be put in place by strengthening the income and wealth tax regimes. The focus will be on systems to ensure transparent and accurate self-declaration of income and wealth by citizens on pain of *severe* penalties.

Abolition of corporation taxes including value added tax

Once income and wealth taxes are fully operationalised and sufficient funds are being raised through this process, **corporation taxes will be abolished**. Corporation taxes including value-added taxes create enormous amounts of wasteful paperwork inside business organisations. But most problematically, the legal fiction of corporations did not sign the Constitution, nor does it vote in elections. Our defence forces protect *real* people, not pieces of paper stamped with the logo of a company. **Companies don't owe the country *any* tax; their individual shareholders do.** Shareholders will be taxed both on their income and on their wealth.

Wealth tax will be progressive based on the net asset value of families, including fixed and financial assets. Where necessary, eg, in cases where the income of a citizen is insufficient in a given year to pay wealth tax, the citizen could either hypothecate relevant shares or investment properties with the government or directly sell them to pay the tax. Under this system, a Warren Buffet living in India would pay appropriate tax not only on his $48 million annual income but also on his $52 billion wealth! Annual wealth tax, would, however, be proportionately small, at less than half a per cent of wealth.

Abolition of indirect taxes

Indirect taxes will also be abolished as soon as practicable. At present, given its very poor regime of wealth and income tax collection, the Indian government largely depends on expenditure (or indirect) taxes such as sales tax, but more broadly, corporation tax and customs and excise duties. These are ultimately paid by consumers as a tax on their *expenditure*, not as tax on their income or wealth.

The fundamental problem with indirect taxes is that we do not know *who* pays which tax and how much. Indeed, indirect taxes hit the poorest the hardest and are regressive in their effect. The poor, who spend virtually all their earnings on consumption goods (*cf.* Engel's law[2]), face the full brunt of expenditure taxes, while the rich face a much lower ratio as a proportion of their income, since they save most of their income and invest it in assets. But we need to be *paying* the poor through a negative income tax. Our governments currently make feeble attempts to pay the poor by way of a large number of misdirected subsidies and the corruption-ridden public distribution system; but *very few* of these payments reach the poor.[3] On the other hand, almost all expenditure taxes *do* reach them. **Consequently, we end up taking money from the poor (in socialist India!) instead of paying them.** There is little point in having a system of misdirected subsidies for the poor on the one hand while taxing them *heavily* through indirect taxes on the other. And there are bureaucratic

[2] The Engel's law states that as income rises, the proportion of income spent on food falls.

[3] This claim is based on my experience of over a decade of visiting remote parts of India and talking to villagers on a range of issues, apart from years of experience in directly administering the public distribution system in Hojai sub-division and Barpeta district.

and corruption costs both while giving and taking back! We must make sure that we *do not make the poor pay any tax* until they rise above the poverty line.

A host of other indirect taxes on products and transactions will also be eliminated. However, land taxes, municipal rates, user-based charges, and compensatory (Pigovian) taxes such as carbon tax and cigarette taxes will remain, and, in fact, be *significantly* strengthened.

Implementing a strong wealth and income tax system

How can we actually create a stronger income and wealth tax system? We recall that the poverty elimination model discussed in chapter 3 hinges critically on identifying *who* the poor are and *what* they earn; so that their incomes can be *directly* topped up by the rest of us through a negative income tax. This model requires annual income and wealth tax returns to be lodged by *all* Indian families, including by the poorest of the poor. This is a much harder task than taxing suppliers of goods at source. I have described how this will be implemented under the section on poverty elimination, later in this chapter.

Lodging income and wealth tax returns by *every adult* in India will thereafter be made compulsory irrespective of the person's income level, within three years of my government's taking charge. Today we only have 3 crore tax payers in India, merely double the 1.34 crore taxpayers of Australia which has a population one-fiftieth of India's. In the same ratio, there will be 67 crore tax payers in India in three years, even though a good proportion of them will get *advance payments* of well targeted negative income tax to help them overcome poverty.

As a result of these reforms, the total ratio of taxes should rise to around 25% of India's GDP in five years, being equal to the *chauth*, a historical level of tax in India. There will also be no leakages on account of corruption. This is a reasonable level, given the overall tax burden in most OECD countries of over 40% of GDP. Over the course of time, India may need to increase its tax burden further to around one third of GDP. But that cannot be a target. The target will be *that* level of taxation which enables necessary services to be provided efficiently and effectively.

2. Building capability to govern

- **Month 8: Departmental strategic plans:**
  a) A **high-level review** of *each* major activity undertaken by each department, to be completed by the end of month 9. A two to three page summary on each *major* activity would be presented to Cabinet in months 9 to 12, and all reviews published on the internet after Cabinet endorsement. These reviews would provide the rationale for either continuing with an activity or reverting it to citizens. The box below outlines the principles what will guide these reviews.[4]

Box 13

Review of major departmental activities

The basic question to be asked in the reviews would be:

1. *Is there conclusive evidence that citizens are unable to resolve a particular problem ("Problem") on their own initiative using current knowledge and technology, or have tried, but failed to solve, such a Problem?*

1a) If the answer to this question is "No", steps would need to be taken to

[4] These principles will be revised and re-designed in the form of a checklist or guide before being used for the action strategic plans. The body of literature that will be used for such a checklist includes the *Victorian Guide to Regulation* available at http://www.vcec.vic.gov.au/

shut down *all* government activity in that area. Employees working in that area would be declared as 'reservists' in Phase 1 and paid their usual salary while attending training courses approved by the Freedom Ministry to re-tool and re-skill. They would be thereafter be redeployed wherever shortfalls arise during in Phase 1 particularly in areas of governance needing to be strengthened. If no opportunities are found for them, or where opportunities offered are not deemed suitable by these reservists, they would be given a redundancy package on the commencement of Phase 2.

1b) If the answer to this question is "Yes", then existing governmental activities in that area would need further analysis.

Further analysis: This analysis would seek to determine:

1b.1 *whether the government can deliver a <u>better solution</u> to the Problem than what the citizens are able to deliver to themselves*; or

1b.2 *would citizens be able to solve the Problem if they receive <u>more support</u> from the government than provided at the moment*?

1b.1a If *conclusive* evidence cannot be adduced to prove beyond doubt that the government can, on balance, deliver *better* outcomes than citizens acting on their own behalf, then that activity will revert back to the citizens. It is preferable that citizens solve a Problem imperfectly in complete freedom, than for them to pay a government to do it *equally or more imperfectly at much greater cost.*

Governments are generally more inefficient than private citizens, perhaps by a factor of two. In India, this factor is likely to be significantly higher, potentially approaching infinity—particularly in areas where severe corruption means that the product, such as rural infrastructure, is not delivered at all! I know of a number of village school buildings that were fully paid for by government but which existed only on paper! Missing roads is another common problem. Much better to scrap such activity completely and let people build their own 'non-buildings' and 'non-roads' for free.

1b.2a On the other hand, support from government *could, in some cases,* help citizens to solve their Problem better than being on their own. For instance:

- The government can act as a catalyst for voluntary action. There might be a *coordination* or *information problem* which could be resolved by encouraging citizens to work together on the Problem-solving activity. They could be supported in establishing their own standards and independent auditing mechanisms. This may be attractive to businesses where not doing so could mean that the government will have to potentially get involved through a heavy-handed regulation.
- Businesses need to explain unambiguously what they are supplying to consumers and the protections they are offering. Where this does not happen properly, mandating the *provision of information* may suffice. Government could also fund independent research in controversial areas like tobacco and GM products to clarify the actual impacts of these products.
- In matters relating to the health and safety of people, or to the

welfare or sustainability of the environment, the government would need to lay down *socially agreed minimum standards* for all citizens to comply with, which it will then have to *enforce* consistently and uniformly through an independent regulator. Should this become necessary, the regulation must be light-handed and well targeted. Roving inspectors cannot form part of a regulatory regime. Even within these mandated regulatory standards, industry could be encouraged to set its own, higher standards.

1b.2b If it is found that a Problem actually requires *direct* government intervention to preserve the freedom of citizens, and that a government is likely to do that job *better* than citizens attempting to do it themselves, then that job can be given to the government 'on probation'. The questions raised in the introductory section of this chapter then become particularly relevant, namely:

- Will such activities enhance the levels of freedom (or justice)?
- Will such activities create a government that is efficient and accountable?
- Will such activities encourage us, the citizens, to take responsibility for ourselves and to reduce our dependence on governments?

If a task is directly taken up by government, arrangements for its *first-rate* implementation would need to be made. If it becomes clear on review that the government is *the best provider* of a particular service, then such an activity will likely need to be *strengthened* from its existing levels. A likely example is justice and policing. But if adequate resources cannot be raised for high quality delivery, the task would have to be put on hold till funds are found. A regular evaluation of the government's performance and a periodic review of all options, would be carried out. All legislation and regulation would be reviewed every 10 years in addition to the annual review of activities. Constantly changing technology and new economic analysis would inform such reviews. Wherever possible, more effective ways of achieving these outcomes would be sought and implemented.

- **Month 9: A new *Superannuation Act*:** As indicated in chapter 6, one of the key barriers to occupational flexibility in India is the absence of a uniform superannuation scheme that applies both to the public and private sectors. A *Superannuation Bill*, upon the commencement of which the Central Provident Fund legislation and General Provident Funds would be disbanded, would be introduced in Parliament in the 9th month. This would require each employer, including the government, to transfer 10% of an employee's gross salary, at a low rate of tax, into privately managed superannuation trusts that would invest these funds into risk categories selected by employees. This 10% contribution would technically form part of the employee's contribution, and will be included explicitly in all salary packages.

  There are many reasons to use privately managed funds. One of them is the sheer incompetence of India's government fund managers (box below). Private funds will, on the other hand, be accountable through the delivery of services that meet agreed international standards. They will also be audited and regulated by an independent prudential regulator. These contributed funds would be available for withdrawal by employees in the form of annuities at age 60, or for specified crises as a lump sum prior to age 60, with this age to be reviewed as longevity increases in India.

Box 14

Sheer incompetence of government account keeping

Government employees are often unable to get their own dues back upon retirement or resignation even from the General Provident Fund (GPF). My personal example is worth noting here:

- The government of Meghalaya has not yet paid my own GPF contributions back to me. It is highly improper, if not illegal, for a government to not repay these contributions made from an officer's *own* salary. It is like a bank refusing to return your savings and refusing to respond for years to your request to return the money.
- Similarly, the account-keeping systems in the government are *beyond repair*. I asked the Meghalaya government that the balance on my motor-car advance of Rs. 80,000 be set off against my GPF. But the Accountant General's office has then floundered like a limp fish, unable to trace either my loan's original documentation or the repayments I have made. I possess my records, but I have *no intention* of doing the work these public servants are *paid to do*.

These laid-back, tea-swilling *babus* expect retired staff and those who have resigned to run around their filthy, stinky offices, spending weeks of their own precious time, to chase up their dues. I am even informed that many retired people have to pay bribes to get their dues back from the government. I also know of a case where the group insurance dues of an IAS officer who resigned has not been repaid by the government of India. This ridiculous government 'management of funds' has to go; there is no place for such utterly incompetent service providers in free India.

As an associated step, the net present value[5] of the eligible pension benefits of *each* public servant will be converted into an appropriate lump-sum contribution from the government, when the superannuation law comes into effect (latest by the end of the 25th month). For instance, the contribution made for a public servant with 24 years of service would equal the net present value of pensions and gratuities that this employee *would* have been entitled to had he or she retired at that point in time. Similar, appropriate adjustments would be made for the Central Provident Fund scheme.

Since the government has been following a pay-as-you-go system of pensions for its employees, thus using current revenues to pay outstanding pensions, the new *Act* will impose a significant up-front burden on the government's financial position. However, as the cost of pensions was to be met through future taxes, the government simply capitalise this through issuing bonds equivalent to the present value of the taxes that would have been needed to meet a particular year's pensions. Retiring of bonds from future revenues would then equate to what the government would have otherwise paid out as pensions. Pensions and gratuity for all public servants would then be disbanded. Those who retire, or die before the *Superannuation Act* takes effect would not be affected, with their pensions being paid as usual—a task delegated to the private superannuation funds.

[5] A multiplier of 14 (or similar number) of the annual pension would equate to such a net present value.

- In this manner, by eliminating tenured appointments at senior levels, by introducing redundancy for all permanent positions, and by enacting superannuation legislation, *significant* flexibility would be introduced into the Indian labour market. A number of other, more generic, labour market reforms will also be introduced which I do not touch upon here for want of space.
- **Month 9: Constitutional amendment to abolish the all-India services:** Also in the 9th month the Freedom Minister would introduce a Constitutional Amendment Bill to wind up existing civil services and to repeal Articles 308 to 323. Approvals from states would be obtained and the Amendment enacted as soon as possible, to take effect from month 31 at the latest. Through this process, there would be no longer be any Constitutional barrier to the Phase 2 structures. Indeed, this amendment would be made effective as soon as the *Public Administration Act* is enacted.
- This amendment would automatically abolish the Union Public Service Commission (UPSC) in its current form. However, under the *Public Administration Act*, the UPSC will be reincarnated and headed by a Public Services Commissioner. It will shed its recruitment function except for the armed forces, for which a longer and different transition will be separately laid out. It will largely convert into a research organisation on public administration and provide recommendations to government on world-best-practice for the bureaucracy. Its periodic recommendations would lead to further streamlining of the public services and help to further increase their agility, productivity, effectiveness, and integrity. It would also establish newer, and usually better, working conditions *every three years* for the public services in consultation with employees and their representatives, subject to Cabinet approval. The practice of setting up *ad hoc* Pay Commissions would cease.
- **Month 22: Advertisement for Phase 2 positions:** Based on the details of the restructure, which should emerge clearly by the 20th month, jobs for *all* individual Phase 2 positions will be advertised by month 22, eight months prior to the commencement of Phase 2. These will be open recruitments through the market using procedures prescribed in the *Public Administration Act*. Current employees of the government will be eligible (as will others) to apply for these, fewer, 'final' positions. All appointments made to these positions will be *deemed* appointments, effective only from the commencement of Phase 2.
- Advertisements for these positions will be staggered, the senior-most roles being recruited by month 25, well before the junior ones. Senior managers so appointed will be chair the selection panels to recruit their future direct reports. If these senior managers are not current employees of the government, they will be paid appropriately for chairing these panels. All appointments will be completed by month 29.
- Phase 1 government employees not recruited to a Phase 2 position would be declared redundant with effect from the 31st month and compensated. They would also be supported by the Freedom Ministry depending on the length of their service, through training opportunities and assistance in setting up a suitable small business. It would be ensured that they do not become worse off for up to 5 years beyond the commencement of Phase 2 on the sliding scale mentioned earlier. It is expected that they will find something useful to do in the radically new economy of India. The Freedom Ministry will also monitor the health and well-being of those made redundant. This one-off function of the Freedom Ministry will cease after five years.
- The performance indicators for Phase 2 secretaries will be significantly tougher than Phase 1 indicators. These would be linked closely to citizen perceptions of

departmental performance and corruption. If an organisation is perceived to be corrupt by more than a certain proportion of the public, this 'target' proportion being *drastically* reduced each year, Phase 2 secretaries will be terminated *automatically*, without recourse, despite not having been personally implicated in their department's corruption.

- To ensure a fail-safe transition to Phase 2, suitable transitional arrangements and redundancies will be built into *all* systems for the first three months of Phase 2 to ensure that no core function is compromised even marginally.

2.7 Phase 2 – Breakthrough (second 2 ½ years)

The midnight of the first day of the 31st month of my government will be a momentous occasion, with major changes taking effect that day. The new Constitution would become effective from that moment. Among other changes, all tenured civil services will be disbanded and all government functionaries who were successful in obtaining Phase 2 appointments transitioned to their new functions.

Most public sector employees will move into brand new, sparkling and well-equipped modern offices that day; offices that will have no resemblance to their shabby, smelly, and file-infested socialist *avatars*. In some cases, these facilities will be temporary since many government offices will have to be rebuilt from ground up and construction may not be ready by month 30. Presumably, most of the states will also transition in the same manner, or will do so a few months later. Public servants across India will thus move into a far more dynamic, flexible, and challenging—as well as more remunerative, and satisfying—work environment.

All roles transitioned to Phase 2 would be deemed to be *new* appointments, with the relevant secretary now being the *new* appointing authority. Fully computerised service records will be started afresh by the secretaries and earlier records archived while ensuring that the relevant leave records, records of disciplinary proceedings, and health and safety matters, are adequately transferred to the new system.

All underperformers would likely have been filtered out during selection processes for Phase 2, and so it is expected that the secretaries would start with a clean slate. Among other things, each secretary would put in place performance management systems in consultation with their staff, to proactively deal with underperformance. Secretaries would explicitly work towards the *earliest possible termination* of tenured underperforming employees subject to natural justice.

During Phase 2 many Ministers appointed earlier to Phase 1 portfolios will no longer retain their roles due to a consolidation of portfolios. These MPs will be tasked with assisting the Freedom Minister to coordinate and complete a review of *all* existing policy and laws, supported by specialist teams from the Indian Policy Office.

3. Increasing transparency

Citizens need the free availability of information on what a government is busy doing in order to exercise vigilance. As a general rule, greater transparency also strengthens national security by significantly reducing corruption. There is amazingly little information in most government departments that is 'potent' enough to affect the sovereignty or integrity of a massive country like India. **India's defence and security has been compromised infinitely more by politicisation and corruption by socialist governments than by leaks of information.** Therefore the excuse of national security to prevent the release of information must be taken with a pinch of salt.

- Almost the entire information handled by the Government will be made directly accessible to citizens through the internet. The obvious exceptions to this will be:

content that identifies individuals and thus impinges on their privacy, and matters generally dealt with by the defence and external affairs departments.

- The *Official Secrets Act* is primarily about restricting espionage, which is unexceptionable. The problem arises when this Act is used to block the release of information in situations *where no risk to India's sovereignty can be discerned*. One suspects this Act has been cited largely to withhold information relating to massive socialist corruption. This problem has eased after the *Right to Information Act*, 2005 with its right to appeal. However, more can be done to clarify and simplify affairs. Therefore the *Official Secrets Act* will be repealed by the 9th month with its relevant anti-spying provisions being integrated with the Penal Code to deter public managers including politicians from deliberately or even accidentally compromising the country's security. Heavy penalties will continue. However, while genuine spies will still be able to be prosecuted vigorously, it will no longer be possible for any government to use these provisions to block the release of information without an independent, albeit secret, judicial review, first.
- After the new Constitution has been adopted, the provisions of the new *Comptroller and Auditor-General Act*[6] will be changed. The office of Auditor-General will be made far more oppositional than it is at present. "That which opposes produces a benefit" (Heraclitus, 500 BC). Transparency is best promoted by those who have a strong incentive to demand it, and who gain personally by exposing wrong doing. And who else could have a greater incentive to poke into the affairs of a government than the Opposition? The full value to citizens of having a Parliament is not being tapped under the current system. The new *Auditor-General Act* would statutorily allocate the position of the Auditor-General to an MP elected to that role by the Opposition. This parliamentarian would be empowered to appoint senior executives to this body and commission enquiries on *any* subject or to investigate the functioning of *any* part of government. A very generous budget will be allowed to this body to give it the capacity to undertake such work. This oppositional model, leading to the **self-interested verification of the implementation of my government's policies**, would lead India to the highest level of governmental accountability in the world.
- To *even further* strengthen transparency and accountability, by month 48 each public sector organisation, including departments, will be required to establish Local Boards in each physical location they operate from (see details in Appendix 6), leading to yet another check on the bureaucracy.

4. Some first order core functions

A good government needs to deliver high quality outputs in at least three 'first-order' core areas, of defence, police and justice. These functions must be done *outstandingly* well, and if absolutely necessary to the detriment of *all* other functions. If funds run short, a government can always provide incentives to citizens to take up relatively secondary things like infrastructure provision through a range of innovative ways such as by transferring property rights over roads, airports, or railways.

4.1 Defence

Of these three functions, defence is the most important of all. Indian defence has generally been managed well and needs the least reform in comparison to civilian governance. However, many of the principles articulated elsewhere also have ramifications for the defence forces to increase professionalism. Given that I do not

[6] Recall the translated legislation proposed in Chapter 4 such as the President Act, etc.

possess sufficient knowledge about defence, I do not propose to comment on defence reforms.

4.2 Police

The second most important function is policing, involving internal security and maintenance of law and order. Without it, there can be no possibility of a free society coming into being. Unfortunately, both the quality and incentives of our police forces have been seriously compromised by political corruption. Therefore, a major overhaul is in order in this area, starting from the top.

The new recruitment practices for senior public servants will also apply to senior officials in the central police forces, including significant salary increases and removal of tenure. These positions will be recruited through open competition, including internationally.[7] There will be no Indian citizenship requirement for most roles in the police, except for the head of the police and its internal security branch (unlike in defence where exclusive Indian citizenship as well as residency will continue to be mandatory).

As this is an area where market-based valuations are not always feasible, the exceptional risks faced by the frontline police would be factored into their remuneration. Grants will be made to the states to similarly reform the *state* police forces. The conditions for these grants would require the reform to start similarly from the top. In this manner, complete modernisation of our policing systems will be quickly implemented. In particular, unskilled policemen who, after being given opportunities for training in Phase 1, do not meet international standards of competency would be let go during the recruitment process to Phase 2. Vigorous surveys of the public on their perceptions of corruption in the police would also be introduced and senior managers held personally to account for maintaining a *zero corruption* public image.

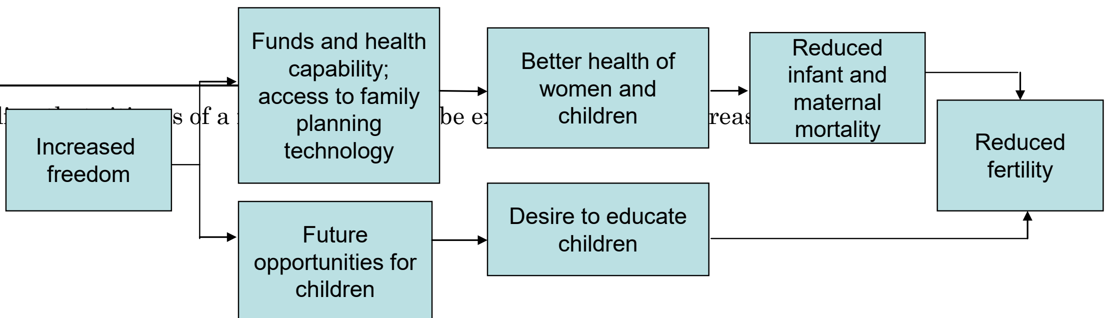
4.3 Justice

The third most important function of a government is justice, but again one where India performs exceptionally badly. In fact, justice is the most basic of all concepts underpinning freedom. A society that disregards justice can never become free. To begin with, processes will be set in place to appoint as many judges, each on five-year contracts to the Supreme Court as needed, who will prioritise and systematically dispose the entire judicial backlog. The salaries of judges would be brought on par with the 90th percentile of lawyer earnings at that level of court.

Cases pending for more than 1 year will be allocated clear timelines for disposal and the list of such cases published on the internet once a year. So-called 'criminals' who have been imprisoned for significant periods of time without trial will be released subject to their having behaved well while in jail, and pending the completion of their trial. Grants will be provided to states to initiate similar action in their High Courts and lower courts. These grants would also help to significantly upgrade the court and jail infrastructure.

5.1 Environmental sustainability

Before proceeding to the issue of environment, it is worthwhile clarifying this statement given the common misunderstandings about the relationship between population size and our country's economy. I have depicted the key arguments to underpin this statement in the diagram below and then elaborated on the diagram in the box below.



[7] Recall [illegible] s of a [illegible] be ex [illegible] reas

Box 15

Fertility is related to the level of freedom

The subject of human population growth has spawned numerous debates over the past 210 years since Malthus first published *An Essay on the Principle of Population* in 1798. I am summarising below a rigorous and persuasive model that has been found far better at explaining observed changes in human population than Malthus's conjectures. This models explains fertility at the individual level, ie, the number of children a couple choose to have. Being an economic model, it applies well *on average*; not necessarily to specific individuals. If you are interested in a more detailed discussion, you can read my PhD dissertation.[8] Even though no parent *consciously* calculates the things summarised below, this model successfully predicts, on average, the number of children parents actually choose to have. It also applies irrespective of whether parents live in developing or developed societies.

A model of fertility

When considering the number of children they want to have, couples ask themselves either explicitly or implicitly the following questions:

a) Survival of children: "*How many of our children will survive?*"

Human population hardly increased for tens of thousands of years. Malthus's laws seemed to apply: populations would rise for a while and then be decimated by natural causes, bringing them back to square one each time. **Until modern health came on the scene, it was critical to the survival of the human species for each woman to have about seven children.** That was roughly the 'natural' level of fertility that the human species had evolved to. On average, of these seven children, just over two would survive well into adulthood. However, this need for women to have a*ll* the children they could possibly have, has changed dramatically after modern health has come to the scene. Malthus's laws no longer seem to apply.

But the high fertility of the past was not an instinctive phenomenon; it was a *rational* response to the high mortality rates that parents observed. Parents estimate the probability of their children not surviving childhood, by looking around them. Infant and maternal mortality rates are generally high in less free countries because these countries are poor and can't afford health care. In societies like Nehruvian India parents may rationally choose to have *all* the children they can possibly have. Nonetheless, even with the extremely poor health care programmes put in place in India, more children and women started surviving than they had in the past. This led to an unanticipated bump in India's population as parents had not anticipated that so many more of their children will survive. Newer parents have quickly re-adjusted their estimates of child survival, and have fewer children than their parents did.

[8] A copy of the dissertation is available at: http://www.sanjeev.sabhlokcity.com/almaak/Dissertation/sabhlok-disstn-1999-web.pdf

Having access to family planning technology has been important for this choice to be exercised, but not critical. Numerous historical instances of family planning being practiced without modern technology are well known. Even today, one-third of Italian couples (Italy has a particularly low birth rate) use withdrawal as the family planning method since Catholicism doesn't encourage contraception. When parents are determined not to have children, technology becomes a secondary factor.

b) Cost-benefit:

After the survival question has been answered, there is another important question. Parents can choose to have (1) fewer but better-educated children, or (2) a larger number of poorly-educated children. Parents answer this question by maximising their benefits and minimising their costs.

"What will we gain from our children?" Parents everywhere, but particularly in countries such as India which do not have old-age pension or welfare systems, take into account two kinds of financial and non-financial returns from their children: *one*, some form of 'help'—not necessarily financial—when the children are young, and *two*, 'insurance' *if* the parents need to be looked after in old age. This insurance comprises of two components, a financial return if needed, and a non-financial 'care', if needed. This gives us the *total expected benefit* from each child. To estimate this benefit, parents first need to predict their country's future economic prospects. That will tell them what their children *could* earn in the future when they (the parents) are old. Parents generally look at the current economic policies of a country to predict the future. **If capitalist, free market policies are in place in a country, parents expect future growth in incomes for their *educated* children.** On the other hand, if socialist policies are in place, parents can't see much of a future for their children.

"What will the children cost?" Bringing up children and, in particular, educating them, costs time and money, both the real costs of bringing up children and the opportunity costs of the time of parents and the children, assuming that the state provides 'free' education.

Final decision:

- Parents will choose to *educate* their children and hence have fewer children since parents only have limited resources, if they expect their children's future income to become significantly larger than if they were *not educated*. This will happen only if the future economy is likely to generate good jobs for educated people.
- Conversely, they will choose *not to educate* their children and hence have more children if they believe that their children's future income will not be affected by the children's level of education because of the poor future economic environment.

What *rational* parents will choose in socialist India

In India—which was predominantly socialist at least till the late 1980s—the so-called 'education' provided in ramshackle school buildings in villages and slums was not really an education. The future income of such children was only marginally impacted by such 'education'; nepotism and bribery were far more influential in securing jobs. Jobs that required genuine education were very scarce, anyway: many MA degree holders could also not get jobs beyond that of junior office clerks.

Parents in village India could see clearly that there was *no point* in having fewer, more educated children. It was far better for them to have *many* children and use these children as labour when the children were young, save money for their old age, and also hope that at least one or two of these children would take care of them in old age. Child labour was therefore significantly exacerbated by Nehru's socialist policies. The first major change in fertility in India was prompted by declining infant mortality rates. But it was only from late-1980s, with increasing liberalisation, that parents in villages realised that educating their children made economic sense. Today they know that educating their children can make a *huge* difference to their children's future income. Therefore, *private* English medium schools are sprouting even in remote villages wherever the modicum of good governance is being delivered by governments. Parents are sensible enough not to send their children to government schools. I commend millions of Indian villagers for displaying eminent common sense and reacting rationally (and in my mind, beautifully!) to economic incentives, something their urban well-educated counterparts rarely display when talking about our villagers' highly evolved thinking capacities.

Some implications

We therefore learn that **policies of freedom and good governance always reduce the demand for children.** Indeed, policies I advocate in this book will not only stabilise India's population, but will help to significantly shrink it over the next 50 years. The wealthier a society becomes, the lesser parents need to be financially supported by their children in old age. That further reduces the 'demand' for children. They do continue to need non-financial 'care', though, and so this demand never falls to zero. Most people will still have *at least one child.*

What is the 'optimal' level of population for a society? There is no such level. Nevertheless, once a free society arrives at a **sustainable balance with the environment**, then the society can aspire for is average woman choosing to have 2.05 *highly* educated children. That would sustain that level of population potentially for ever. Of course, this is not something for a government to spend its policy resources or taxpayer's money on. An important implication to keep in mind: this model shows that it is not sensible to introduce old age pensions in a society. Where such schemes exist, the demand for children can plummet precipitously, and relations between parents and children can get strained. Let the government not disturb this age-old relationship.

The international ramifications of carbon pollution

Oil reserves will run out very soon (in comparison to the thousands of year that lie ahead for mankind), and coal eventually, therefore naturally reducing carbon emissions. That is likely, however, to be too late for a very large number of species on this planet which could die as temperatures rise at the current rates over the coming centuries (there is increasing evidence that this rise is man made[9]). And controlled fusion energy is at least a few decades if not generations away. While renewable energy is definitely to be preferred wherever it is economic, there are significant limits to its availability. Therefore, despite its (usually exaggerated) risks, *there is little choice in the immediately coming decades but to use nuclear energy as a pivotal source of energy*. The benefits of nuclear and renewable energy are twofold: they minimise climate change while also allowing mankind to use oil and coal for much longer, thus not burning these resources in a great hurry.

But why is this shift to renewable and nuclear energy not happening soon enough across the world? That is because governments across the world do not price oil and coal correctly for negative externalities. As a result, **the price signals for oil and coal-based electricity are skewed towards *greater* use** than towards lesser or

[9] I'd recommend the following web sites:

more efficient use. This prevents potentially commercially viable alternatives such as renewable energy. If developed countries impose appropriate Pigovian taxes on oil and coal use, renewable energy can become economically viable. My government, having unilaterally introduced a step-wise escalating level of Pigovian taxes on carbon, will try to get the rest of the world to follow suit.

These countries will be asked to deploy these carbon taxes both to increase the developing world's forest cover through private plantations (see chapter 3 on how this can be done) but also to significantly increase their own forests. The West has been guilty of deforesting rainforests in poor countries by buying illegally felled timber and also blocking its own timber plantations from expanding on the ground of visual inconvenience or externalities. But in this manner *mankind is simply increasing CO_2 emissions while simultaneously reducing absorptive capacity for CO_2.* Something has to eventually give at this rate.

6.2 Enhancing innovation

Paraphrasing Ayn Rand, technology is the distillate of the most creative human minds.[10] It is the best mankind has to offer. **The free and unhindered flow of all human knowledge including the latest technology, along with the complete freedom to think critically, is the enabler of innovation.**

There was a time when, at the peak of socialism in India, foreign-exchange reserves plummeted and a free flow of technology was considered not feasible. Socialist policies so dramatically reduced the value of the rupee that it became impossible for most people to afford the latest books from the late 1960s. Even today, books remain very expensive in India.

Another problem has been the socialist concept of 'appropriate' technology which keeps raising its head in policy discussions. By 'appropriate' technology one of two things is meant: (a) the deliberate *dumbing down* of the world-best technology to provide labour with small productivity gains; or (b) the act of improving labour-intensive methods of work *very slightly*. Either way, its objective is to promote 'labour-intensive' technology. The hand-made roads of India are a typical example of 'appropriate technology'—an egalitarian philosophy which would rather *distribute poverty equally* by having 1000 unskilled workers build a road, than create incentives and opportunities for these workers to obtain skills and move up the value chain. Till today, therefore, hundreds of labourers toil away in the sun in remote parts of India, breaking one stone at a time, patting down the soil with their bare hands, as they try to build their hand-made roads. These roads not only take months, if not years, to build; but crumble into pieces at the slightest monsoonal shower. This kind of technology is not appropriate but grossly inappropriate. Appendix 7 elaborates this issue further.

Professor Ludwig Von Mises wrote as follows (underlining mine) of India's socialist urge to promote primitive technology:

> American wages are higher than wages in other countries because the capital invested per head of the worker is greater and the plants are thereby in the position to use the most efficient tools and machines. What is called the American way of life is the result of the fact that <u>the United States has put fewer obstacles in the way of saving and capital accumulation than other nations</u>... The economic backwardness of such countries as India consists precisely in the fact that their policies hinder both the accumulation of domestic capital and the investment of foreign capital. As the capital required is lacking, the <u>Indian enterprises are prevented from employing sufficient quantities of modern equipment</u>, are therefore producing much less per

[10] She called machines "the frozen form of a living intelligence" (Ayn Rand (1957). *Atlas Shrugged.* Signet. New American Library. Part 3, Chapter 7, p. 988).

man-hour, and can only afford to pay wage rates which, compared with American wage rates, appear as shockingly low.[11]

By not using the *best* (or optimal) technology *at every step*, we go backwards in time and reduce our potential as a nation. **Using the best technology is of particular importance in infrastructure and other governance projects which need to be first rate, or not started at all.**

In order to ensure that India is able to get access to the world's best technology in everything it needs, all socialist barriers to self-actualisation, including remaining restrictions on investments and barriers to trade, and limitations on the importation or use of technology, will be abolished on the *first day* of my government—or as soon as legally valid 'orders' can be churned out. Tariffs on all products will be dropped virtually to zero; the only reason for their existence being to meet the cost of record keeping of the trade for statistical purposes. And services provided by my government will be world-class, making use of the *best* available technology.

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Final comments

Box 16

A few other objections to views expressed in this book

'Providing for a *process* for secession in the Constitution is wrong'

Problematic for some readers has been my advocacy of a *process* for secession for inclusion in Indian's proposed new Constitution. It is worth repeating that I am *not* advocating secession; only a *process* to ensure free peoples can talk to each other and vote democratically to solve their problems rather than kill each other. To me, this process is the *touchstone* of freedom. If we wish to be free, we must have this process in our Constitution. Else we will still be best described as tribal brutes.

For some reason we seem to have an impression that the nation (our 'tribe') is more important than the individual. Surely that's not true! The gentle message of individual liberty reminds us repeatedly that the nation is created to serve the individual. Its opposite, collectivist perspective, can only sit with ideologies like socialism and fascism according to which the individual is created to serve the nation. In the end a country is not a block of *land*. It is a place to grow our *children*. **Let's think of the children first, everyone's children—even the children of our so-called enemies**, whoever it is we think in our tribal moments to be our 'enemy' today. If we do so, we'll find that our resistance to the requirements of freedom, reduce somewhat. Forcing people to stay with us at the point of a gun is not the way to grow *either* our children or *others'* children. Let the world's children not be contaminated by the poison of hatred we may have acquired while growing up.

India will survive *forever* only if it becomes a great place for children to grow up. Just as the Invisible Hand is non-intuitive and very hard to understand, the effects of the Invisible Bonds of Freedom are non-intuitive. Letting people know that they can leave if they really want to, actually *unites* people—something that is not obvious unless we think through it carefully. Love is best demonstrated by letting the person you love *go*, by letting the loved person live his or her own life, and allowing reason to flourish. It is force, coercion, and tribal hatred that splits relationships, families *and* nations. **No one leaves free societies.** If India chooses to become truly free, then even our brothers who angrily created Pakistan, and later Bangladesh, may ask to return. Finally, if Canada can have such provisions and

[11] In *Planning for Freedom*. 2nd ed., Libertarian Press, 1962, pp. 151-152.

happily continue to be a free nation, even a great nation, why not *us*? Why should Canada be the nation willing to befriend Freedom? We should be a world leader in such matters, too. Let us take the risk of inviting Freedom into our house: we will be astonished by its endless bounty and rewards.

Appendix 3. Polygyny and polyandry

This appendix is related to chapter 4. Polygamy (with *polygyny* being marriage to multiple women, and *polyandry* being marriage to multiple men) has roots in the traditional cultures of India going back thousands of years. Historically, polygyny arose from our tribal, warrior, past. Primitive societies were almost continuously at war, in which men tended to get killed in great numbers, leaving an excess of women over men. It was considered to be a social obligation for wealthier men to take on more than one wife, so that someone the surplus women could have a normal life. But constant war is not what happens, or should be happening, in modern free societies. The rationale for polygyny is now over. It is worth noting that polygamy has absolutely nothing to do with population growth in a society, which is related to the number of women in a society and determined by factors described in chapter 7, not by the number or type of marriages. Accordingly, India's population hardly grew over thousands of years, despite the large incidence of polygamy.

At least till the mid-20th century, between 1/6th and 1/20th of all marriages in India were polygamous, depending on the number of surviving women in that society. Rich men, whether tribal, Hindu, Buddhist, Jain, or Muslim, took multiple wives. Dasharatha, the father of Lord Rama in *Ramayana,* was a polygynist, as is King Jigme Singye Wangchuck of Bhutan today with his four wives. Even polyandry wasn't frowned upon, though not actively encouraged. Draupadi of *Mahabharata* married five Pandavas (who had other wives too, each Pandava being separately polyynous). **There was therefore significant freedom of choice on matters of marriage in India, and social norms were quite flexible.** Until the Hindu laws (ironically not made by the Hindus but by the Indian Parliament!) forbade bigamy in 1955, it was prevalent both among Hindus and Muslims in India in roughly the same proportion—around 5% of all marriages—with Hindus perhaps being slightly more bigamous, on average, than Muslims.[1] Ritu Menon, a writer, noted in an interview in November 2004 that "In fact, bigamy is equally common among Hindus."[2]

Freedom has a simple and clear message of accountability. What varies over time is our understanding of how this accountability is to be met. Today, on the matter of polygyny or polyandry, I believe that it is distasteful to human sensibility, and arguably in opposition to equality of opportunity, for a person to have more than one spouse at a point in time. In particular, our equal regard for women—who were not accorded the necessary equality of opportunity at one time, being considered to be the property of men—leads us to now withdraw our support for polygamy, just as modern society has withdrawn support to practices like headhunting, cannibalism, and slavery. **Therefore, a *Prohibitions Act* (discussed in the main text) could reasonably prohibit bigamy just as it would, things like *sati* or child marriage.** Such a prohibition is in favour of the life and freedom (particularly

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[1] "A study (1971) shows that percentage incidence of polygynous marriages (where a man has more than one wife) is 5.80 per cent among Hindus. The incidence among Muslim is in fact slightly lower at 5.73 per cent. The incidence of polygynous marriages is highest among certain tribes (15.25 per cent) followed by Buddhists (7.97) and Jain (6.72 per cent)." Census of India 1971, "Polygynous Marriages in India: A Survey", Miscellaneous Studies, Monograph No 4, Registrar General and Census Commissioner, New Delhi. From an article at
http://www.sacw.net/2002/CensusandCommunalism.html

[2] Interview by Rashme Sehgal for InfoChange News & Features, November 2004. See
http://www.infochangeindia.org/analysis49.jsp. Ritu Menon is co-author of Ritu Menon and Zoya Hasan (2004). *Unequal Citizens: A Study of Muslim Women in India.* Oxford University Press.

equality of opportunity) of women who have good reasons to be apprehensive about their fate in a polygynous marriage.

Islam is the major religion in India which has not accepted this position. But the Islamic view across the world, however, is changing. This issue is therefore now ripe for a careful re-think by Indian Muslims. Tunisia, a Muslim republic, prohibited polygamy in 1956. Turkey, which is secular but almost entirely Muslim country, prohibited polygamy even earlier, in 1926. Millions of Muslims living in Western countries have adjusted to laws that do not permit polygamy. Indeed, in the USA, England, Australia, and Canada, Muslims can face *criminal* prosecution if they enter into a polygamous marriage. In other Western countries such as France, Germany and Japan such marriages are deemed null and void. In addition, "There is a growing tendency towards monogamy in Muslim countries and this is the ultimate goal that various women's organisations are encouraging".[3] For example, the *Sisters In Islam* group of Malaysia issued a press release in 2003 entitled, "Campaign for Monogamy".

I am aware that some Muslims brothers in India may see this call to review of their position on bigamy as an 'external' imposition on their religious practices. People don't like change and don't like being asked to change by others. But the original tribal conditions which led to polygamy have changed. There are other good reasons why something that has 'worked' for thousands of years may no longer relevant. After all, we do not have kings in India today, either. Things change. Muslims in India may therefore consider paying attention to what their own sisters' feel on this matter, and consider what is in their best interest.

On balance, in the interest of freedom of choice, particularly given this custom was practiced *widely* till very recently, I suggest that Muslims of India arrive at their own understanding of this issue in the light of the evolution of the philosophy of freedom and of Islam itself. With Islamic countries themselves prohibiting this practice, such a change may not be very hard. Either way, a democratic discussion *within* Indian Islam on this issue is very important. A consensus is preferable, for that would mean that the position against polygyny is internalised, and seen as the right thing to do, not as an imposition from outside.

An referendum organised by the Muslims for themselves (at their own expense) could suggest the way forward. If a majority of Muslims agree to such a prohibition, then the government can legitimately create a general prohibition on this subject. If, however, they *do not* agree to it, then the situation on this matter should revert back to that point in time when *every* person in India could potentially have more than one spouse. It is inconsistent to prohibit only *some* people from having multiple spouses. Whether this means that the entire Indian society will go 'backward' is a matter for each individual and for social and religious reformers to consider, not a matter for governments to get involved in. **The only thing a government can do in such cases is to treat every citizen the same.**

[3] Sudargo Gautama (1991). Essays in Indonesian Law. Bandung. p.158

Appendix 4. Salary and allowance of MPs

The pay of MPs was last fixed in 2006. An earlier statement showing the salary, allowance and other facilities admissible to Members of Parliament is available at http://mpa.nic.in/append17.htm.[2]. However, I have partially updated it from http://mpa.nic.in/a1chap1.htm. I have clustered this information below into three types of benefits. Only the first of these represents money that can actually be 'taken home'. The others are compensation for costs incurred as part of an MP's job, or things that MPs give away to others. Those things are not party of their salary.

1. 'Take home' component

- Salary Rs. 16,000 per month
- Daily allowances Rs. 1,000 per day (meant to partly defray the costs of meals and accommodation during travel to attend Parliamentary sittings; however, half of this can be thought of as being saved by the MP since costs of living and travel are met by the government. If there are 200 sitting dates, this adds up, *pro rata*, to a take home amount of Rs.17,000 roughly per month)

Perquisites (not updated as not relevant to take home pay)

2. Set-offs against (job related) actual expenditures

- Constituency allowance: Rs. 10,000 per month (discretionary spending within the constituency, but often spent on the endless stream of visitors from the MP's constituency and state—which does amount to an on-the-job expense).
- Secretarial allowance: Rs. 10,000 per month (paid directly to the MP's secretary—not received by an MP).
- Stationery allowance and letters: Rs.4,000 per month (possibly a bit much—but a job-related expense, nevertheless).
- 32 free air journeys per year (Many MPs travel much more than this).[3]
- 100,000 free telephone calls per year (while this sounds excessive, it is perhaps necessary given that STD call rates count as multiples of local calls; this is 'legitimate' since MPs need to continuously talk to people in their constituency).
- 1st AC coach, free to anywhere in nation any number of times (that seems needless, given the 32 air journeys).[4]
- In addition, an MP gets a house in Delhi with almost free furniture, water and electricity. But we must remember that an MP is required to maintain two establishments, one in his/ her normal home, and one in Delhi. This must therefore be classified as a job related benefit.

3. Discretionary quotas:

An MP is (or was) also allowed to issue preferential gas and telephone connections to people. These things are probably less relevant in the liberalised environment today

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[1] Earlier information I had used to perform such an analysis a few years ago is available at http://www.indiapolicy.sabhlokcity.com/debate/Notes/mpsget.htm

[2] Earlier information I had used to perform such an analysis a few years ago is available at http://www.indiapolicy.sabhlokcity.com/debate/Notes/mpsget.htm

[3] It must be remembered that 32 journeys are not much over 365 days. Senior civil servants often perform similar travel, and receive similar benefits for actual expenses incurred on their job.

[4] It is probably true that MPs and MLAs have often used these perquisites for their family and friends (see Lloyd I. Rudolph and Susanne Hoeber Rudolph (1987). *In Pursuit of Lakshmi*. The University of Chicago Press. p.85.).

than they were earlier. At one time, the quota for gas connections was raised from 100 to 160 and for phone connections from 25 to 50.

Implications

If the on-the-job expenses and discretionary quotas are used appropriately, ie, not traded in the black market, most of the so-called perquisites would add nothing to the take-home salary of an MP. It is perhaps only through the misuse of some of these perks that MPs are able to add some extra cash to their take-home salary. An honest MP, though, gets to take home only little above Rs.33,000. I have used this figure for the calculations in chapter 4. I gather that this figure is now Rs. 68,000[5] but I have not been able to confirm it from the data on the Lok Sabha website.

[5] http://timesofindia.indiatimes.com/Big_pay_hike_for_President_VP_and_Governors/articleshow/2689882.cms

Appendix 5. Illustrative databases available to public servants in Australia

This table is related to chapter 6. The electronic databases listed below are purely illustrative. Departments and organisations in Australia subscribe to data they feel is more relevant to their needs.

Name of the database	**Brief description**
Austlii	Australian legislation
Australian Public Affairs	This contains Australian journals and information online. The database provides access to thousands of full text articles from 300+ journals across arts and entertainment, education and research, health (medicine), history and heritage, law, crime and justice, social sciences and community issues.
Ebsco host research databases	*Academic Search Premier* is the world's largest academic multi-disciplinary database providing full text of nearly 4650 serials. *Business Source Premier* is the industry's most used database with over 8800 serials in full text.
Emerald	*Emerald* is a UK-based journal publisher. The database consists of more the 100 journals in full-text format.
Gartner	This contains research and analysis on the global information technology industry.
Info trac onefile	Contains nearly 3,000 full-text titles, five newspaper indexes, a total of more than 6,000 titles in all with over 20 years of back file coverage from 1980 to present.
Source OECD online	Direct desktop access to OECD online books, periodicals and databases. Contains 1,500 books from 1998 onwards in 20 themes 19 periodicals in full text including OECD Economics 32 interactive statistical databases including National Accounts.
Standards Australia	Includes many local versions of international standards.

In addition, I find the JSTOR database, comprising of (electronic copies of articles from academic journals, generally available to researchers in universities, to be particularly useful.

Appendix 6. Local Boards

Once the laws of the land are made by a democratically elected government, it is the bureaucracy's job to implement them. But there are numerous problems with inefficient, ineffective, and even corrupt implementation. Oversight of implementation is vested with Ministers and senior civil servants under the current structures of government. Our political representatives also review the enforcement of laws through various committees in the Parliament and state legislatures. But, due at least in part to the poor supervision exercised by these people, **our laws are violated with impunity on a daily basis**. Even after the reforms of the bureaucracy proposed in chapters 6 and 7 have been fully implemented, there will remain opportunities for improved implementation through citizen supervision.

The other major reason for violation of our laws regularly is the sheer impracticability of our elected representatives or senior bureaucrats sitting in the secretariat supervising the operation of *all* government activities *all* the time. This impracticability arises from our thin democratic representation. **There are too many of us and too few representatives.** At the national level, one person out of every 20 lakh (2 million) people represents us. At the state level, this ratio is a little better, around one in two lakhs. Compared with this, in Australia, each member of the Parliament represents only about 1.4 lakh persons, and the representation in the Australian State assembly level is much deeper. Australians get to be represented even more closely at their third tier of government, namely, local Councils, a level of representation which is practically defunct in India.

As such we don't have a notional democracy; and also very poor supervisory capacity. I don't recommend increasing the already large number of representatives in India's legislative bodies. Yes, much more can and should be done at the local government level. In tandem, a major solution must lie elsewhere. I suggest that we create *local boards*, or small groups of interested citizens, attached to each government office. The concept is outlined below.

After the laws of the country are made, we the citizens should partially take back the powers we have delegated to our representatives. **In this model we retain our powers to more directly verify whether the laws of the land are being implemented as intended.** Local boards would be attached to each branch of each government office. These would comprise of say, three persons each, whose names are to be publicly drawn by lots from amongst applicants who fulfil the following two requirements:

- that they are eligible voters of the city or village in which the government office is situated; and
- that they are willing to perform their duties diligently while being mindful that some documents cannot be shown to them due to privacy issues, or in rare cases, due to national security concerns.

These local boards would be charged with supervise the *procedural* aspects of their branch office. They would perform a kind of **citizen audit**. Board members would be invited to all significant *procedural* (not decision making) meetings of their organisation, such as at the time of opening of sealed tenders, where they would act as observers. They could inspect records with due advance notice, verify any errors of omission or commission in the procedures followed, and report these errors to the concerned elected representatives or to the people directly through the press. Their access to the press would be limited by their liability to ensure the privacy of individuals whose records they may come across, and the veracity of their statements. They could also provide relevant information to the Auditor-General who could then initiate a *system-wide* inquiry if necessary.

In this manner, local boards *will ensure that the fundamental control of our country's governance remains with us, the citizens, at all times*. These boards will also enable us to make use the experience of our retired people, who may be willing to step forward as members of local boards to discharge their duties as citizens.

Appendix 7. Appropriate technology

Technology is, by definition, labour-saving. By enabling us to do many more things in the time available to us, technology—embodied in the latest discoveries and inventions, in the latest machines and software, and in the latest management tools—multiplies our labour, improves the quality of our life, and increases our life span by helping us to fight disease and ill-health. Its direct economic effect is usually seen through lower costs and a greater opportunity set for all of us. For instance, in the USA it costs twenty times less in real terms to produce a bushel of wheat today than its cost 150 years ago. According to Ayn Rand, machines are the frozen form of human intelligence.

> "The machine, the frozen form of a living intelligence, is the power that expands the potential of your life by raising the productivity of your time." "When you work in a modern factory, you are paid, not only for your labour, but for all the productive genius which has made that factory possible"[1]

This does not necessarily imply that the use of the *latest* technology is 'optimal' for each situation. Factors such as costs, and convenience (or benefits), will always come into play. As discussed in chapter 6, appropriate technology is usually one of the following two things:

a) technology that upgrades tools used by farmers or manual workers; or

b) technology that is deliberately dumbed down to make it labour-intensive.

1. Technology that upgrades tools used by farmers or manual workers

This can be thought of a form of innovation. In the case of private citizen efforts in this direction, namely, to upgrade an existing technology by a notch, we can say that the most labour-saving technology chosen by self-interested individuals facing a limited budget is optimal, and hence appropriate. If technology of all vintages is freely available in the marketplace, then *all* individual decisions made in the marketplace of technology are optimal and thus appropriate, making the term appropriate technology tautological, trivially representing free choice. The key is that *so long as a government does not spend our money in its invention or promotion*, we have nothing to fear. Unfortunately, this is not the case in India where significant tax payer funds have been spent in the fruitless search for such innovation. I will talk of my experiences with the modified handloom some other day, about how this utterly useless invention destroyed significant public money under my charge as Project Director of the District Rural Development Agency in Dhubri.

2. Technology that is deliberately dumbed down to make it labour-intensive

We should be deeply concerned about this version of appropriate technology. In particular, deliberate effort to *not* use good technology is a sure way to destroy the country's wealth. It could be argued that for subsidy-based poverty alleviation programmes, or for public goods such as roads, the choice of appropriate technology may not be self-evident. If an Indian bureaucrat has to choose between hand-made road (labour-intensive) and machine-made road, which one should he choose? And in what sense is a bureaucrat 'free to choose'? Some observations, first.

- First, as in the case of private goods, factors such as costs and benefits will enter the picture. In this instance, a simple cost-benefit analysis would show that a road built with high-quality machines is built quicker, as well as being more durable, thus needing fewer repairs. A higher quality of road can also permits larger trucks to ply and enable traffic to move faster and safely, thus providing *significant* gains to the society. The higher level of initial investment will be recovered by the tax payer quickly through the sum of these direct and indirect benefits.

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[1] Ayn Rand (1957). *Atlas Shrugged*. Signet. New American Library. Part 3, Chapter 7, p. 988.

- Over and above the obvious calculus of costs, important factors such as human dignity and worker safety must be taken into account. **Using manual labour for tasks such as collection of garbage in cities without proper equipment, cleaning public drains, breaking large stones into gravel, and carrying bricks up bamboo scaffolds is inherently unsafe.** Considerations of safety would also favour the machine-made road. Since socialist over-population has made unskilled labour cheap in India, we don't treat such labourers as citizens deserving due regard. Casual workers hired afresh each day by government contractors are treated little better than slaves. Little heed is paid to their safety and little is heard of the injuries, disease, and subsequent lay-offs due to the negligence of government contractors, Only when tens of them are crushed to death to we open our eyes, but then quickly move on. We must also put an end to our rituals which sacrifice the lives of thousands of poor citizens at the altar of our Temples of Low Standards.
- Machines *demand*—indeed, compel—the development of skills both to handle the machines and to build cheaper and better local versions in India. Vocational education can only make sense if the government—the major supplier of infrastructure—insists that its contractors should always employ trained technicians fully empowered with the best tools in the world. If all we want is socialist, hand-made, roads, why do we operate vocational training institutions in the first place?

  Societies that set incentives for the early adoption of the *best* technology—even if it may appear to be more expensive initially—enjoy the greatest innovation and hence the fastest growth in wealth, since *technology forces the entire society to become intellectually shaper and competitive*. Unskilled people are motivated to upgrade their skills and knowledge quickly. Competitive societies overtake, even overwhelm, others in the export markets since they have learnt to create lower costs and better product quality.

These observations tell us that governments must use the *best possible* technology in its projects. **Japan did not become a great competitor to the West on the foundation of *khadi* and pot-holed roads.** This would be, in the end, a cultural shift for India—a signal that quality is valued in society than quantity.

Under the reformed model suggested in this book, when any bureaucrat faces local political pressures to provide jobs through hand-made roads, the bureaucrat would be able to split the problem into two: (a) the problem of transportation and (b) the problem of poverty. For the first of these, factors such as cost-benefit, human dignity, safety and standardisation of quality should be considered. For the second, the solutions must necessarily be redistributive—in particular, the negative income tax. Combining these two objectives into a muddle-headed policy will lead neither to wealth generation nor the elimination of poverty. **A society must produce the most it can, through the application of the *best*, or optimal, technology, and then redistribute whatever it wishes to, using a <u>one-off</u> consideration of poverty.**