



chapter 9

Poverty

For decades, Economics in India has been a study of poverty. When I started studying Economics in college way back in 1974, the first thing I was taught was the Theory of the Vicious Circle of Poverty. This says that poverty is inescapable. Poor people and poor nations are doomed to remain poor. Of course, this is nonsense. If this were true, the world would still be in the Stone Age. The history of biography is full of rags-to-riches stories. America was built by poor immigrants, as was Hong Kong. Poor people struggle hard, and usually succeed. Rich people get lazy and hooked on to luxury. This theory is now taught in ICSE and CBSE schools. Textbooks which contain this nonsense should be immediately discarded.

Economics is *not* a study of poverty. It is a study of the production of wealth. Adam Smith, in 1776, wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*. It is the causes of wealth that Adam Smith studied. It is this that his free market followers study today. However, India is said to be a poor country and its poverty often calls for POLITICAL ACTION to solve. The politicians spend crores of rupees on POVERTY ALLEVIATION. Should this continue? Let us take a closer look at the symptoms of poverty we see, like beggars.

I often travel between Delhi and Dehra Doon by car. After Roorkee, the road passes through a dense forest. Thousands of monkeys line the thoroughfare waiting for the scraps of food that Hanuman worshippers throw at them. Does this prove that the forest is poor and resourceless?

Or does this show the role of INCENTIVES (or what psychologists call POSITIVE RE-INFORCEMENT)? The monkeys have learnt that hanging around by the side of the road is an easy mode of existence. The same is true of beggars.

Long ago, the great dissenting development economist Lord Peter Bauer of the London School of Economics and Political Science made the observation that the widespread beggary that exists in the cities and towns of India and Pakistan is not a proof of poverty; but rather, the result of the fact that the predominant communities in both countries, Hindus and Muslims respectively, believe that they earn spiritual merit by giving alms to the poor. There are no Parsi, Jain, and Sikh beggars in these very countries because these communities practice charity differently and encourage self-help.

In India, there is a law against the maiming of children for pushing them into beggary.

THE EXISTENCE OF THE LAW PROVES THE EXISTENCE OF THIS VILE PRACTICE.

THIS IS WHY MOST BEGGARS ARE HORRIBLY CRIPPLED.

It is quite likely that the petty kleptocracy of municipal and police officials view beggary as an activity that generates a good income for themselves.

BEGGARY IS AN INDUSTRY. IT PROVES ONE

Self-help is an ethic which holds that help from outside weakens a person. It should only be sought by the desperate, and that too from private charity, or from friends and family.

THING ONLY: THAT WE SHOULD RE-THINK CHARITY.

We must not give to beggars; rather, we should encourage competing private charities.

THERE IS THEREFORE NO REASON TO ALLOW KLEPTOCRATS TO SPEND TAX MONEY HELPING THE POOR.

COMPETING PRIVATE CHARITIES IS THE ONLY WAY.

How would you rather spend your money in order to help the poor in a truly useful manner:

- Pay taxes to the socialist state?
- Give alms to every beggar on the street?
- Contribute to Mother Teresa's Missionaries of Charity?

Self-Help

Note that there are no Sikh or Parsi beggars in India. The Sikhs practice and encourage self-help. Anyone who gets a free meal at a Gurudwara *langar* is motivated to go out, work, earn a living, and himself contribute to a *langar* for others some day.

Samuel Smiles' *Self-Help* is a book every Indian should read.⁵ Written in the 1860s, it was translated into Turkish, Arabic, and Japanese within a few years and sold millions of copies worldwide. In Victorian England, it was second only to the Bible in every home; and in Meiji Japan it spread the firm belief that the Japanese could catch up with the rest of the world if they worked hard and conscientiously, with the least government interference.

The book promotes one's belief in oneself; only one who believes in himself will practice self-help and thereby maximise his human potential. The notion of the WELFARE STATE does not encourage such a point of view. It looks at the poor as hopelessly so, and in need of charity via the state. In India, Rajiv Gandhi himself commented that 80 per cent of the money spent on POVERTY ALLEVIATION SCHEMES does not reach the targeted poor. It is swallowed up by the kleptocracy.

Self-help is an ethic which holds that help from outside weakens a person. It should only be sought by the desperate, and that too, from pri-

⁵ An Indian edition of this book is available from Liberty Institute, New Delhi.

vate charity, or from friends and family. We all have the moral sentiment of SYMPATHY and we all have the virtue of GENEROSITY. That is, we all sympathize with those who are in suffering, and we all possess a generous and giving disposition: that is why beggars are multiplying. They are a living and growing testament of public sympathy and generosity. Their existence proves that well organised and well-directed private charity is the best idea; preferable to state taxation in order to help the poor; and much better than unorganised individual aid encouraging beggary. There is no need, in a free market economy, for state action in aid of the poor.

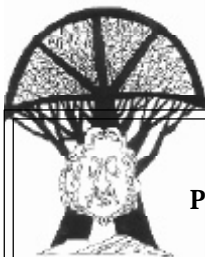
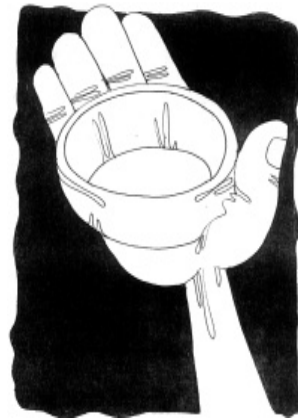
Instead, there is an urgent need to spread the idea that PROSPERITY LIES IN ECONOMIC FREEDOM. Today, the poorest of the poor players in the market economy have their lives ridden with economic controls and are preyed upon by the petty officialdom. The transportation industry is extremely unfree. There is, of course, exchange control; which makes every Indian incapable of participating freely in the globalising world economy. Indian agriculture is also under an inordinate amount of government restrictions.

If all these controls were abolished; and if there was ECONOMIC FREEDOM, the country would immediately prosper. There would be very few poor people, and they could be helped through competing private charities. Beggary would be discouraged by society. The state would tax us all minimally, and invest these proceeds in the best PUBLIC GOODS—especially roads and law and order, and this would allow India to urbanise aggressively: the 400 Singapore vision. Villagers would increasingly prefer to migrate to towns and cities and participate in the greater DIVISION OF LABOUR there. There would be no population pressure on land and Indian agriculture would achieve greater efficiency. Land reforms and land redistribution would be unnecessary. The state would only have to look after property rights.

We must promote the ethic of self-help by encouraging people to create wealth in freedom. Today, we are only encouraging dependence, and hence stifling the full development of India's human potential. This gives an excuse to the kleptocracy to preach in favour of "pro-poor" socialistic policies. These can never help the poor in any meaningful way. These should all be abolished. No ration shops. No subsidies. Instead, free trade, sound money, public goods, law and order, and COMPLETE ECONOMIC FREEDOM.

Freedom enables people to make economic achievements without hindrance. The ethic required is that of self-help. I help myself, and I am free to do so. I do not depend on others, least of all the state. If every Indian thinks like this, and if every Indian is economically free, there will be no poverty.

Poverty of rights
Poverty of freedom
Poverty of truth
Poverty of wisdom
Poverty of good policies
Poverty of good sense
Poverty of public goods—
The poverty's immense.



POINTS TO PONDER

- If the Theory of the Vicious Circle of Poverty is untrue, what explains mass poverty in India?
- How can India become a prosperous nation?
- What are the ways by which we can meaningfully help poor people?
- If all the people in need got dole from the state, would this weaken or strengthen the family? Think deeply: Would we be in need of family and friends if we were on the dole?



chapter 10

Environment

Slums and Rent Control

We have already noted that urban beggary is not a proof of poverty. Let us now look at something else that is a blot on the urban environment: slums.

Note that there are no slums in Kathmandu, Nepal, although the per capita income is lower there than in Indian cities. There is only one reason for the existence of slums: rent control. There is no rent control in Kathmandu, so landlords build houses and let out rooms to poor people who cannot afford to buy or build their own houses. There is rent control

in India, so private landlords have little incentive to offer cheap housing on rent.

The poor typically rent property. They do not buy. They cannot buy. For their benefit, therefore, it is essential to have a vibrant rental housing market. Without rental housing from the market, they go to politically sponsored slumlords, and this adds to THE CRIMINALISATION OF POLITICS.

AN ECONOMIC EVIL CREATES AND PERPETUATES A POLITICAL EVIL.

Why is rent control an economic evil? Because it is a GROSS VIOLATION OF PROPERTY RIGHTS. The property belongs to the landlord. If the tenant can legally take it away, it means that the law is promoting theft. THE LAW IS LEGAL PLUNDER.

When plunder is legal, the market cannot operate. Property rights are fundamental to the morality of the market. Unless it is clear as to what is “mine” and what is “not mine”, no trade, not even barter, is possible. No rental market can come up if it is legal to plunder the landlord’s property. This must be clearly understood.

With abolition of rent control and tenancy laws, a big blot on the urban environment will disappear.

Let us now turn to another problem area: clean air.

Clean Air

The air in our cities is not clean for a wide variety of reasons, foremost being the use of inefficient vehicles and poor traffic management. Even a cycle rickshaw causes pollution when it occupies the bus lane and forces the bus to swerve into the main body of traffic. Every other vehicle user has to change gears and pollute the air. The cycle rickshaw has transferred the costs of its inefficiency onto other vehicle owners. They have to slow down, change gears and swerve—this costs money as well—only because the cycle rickshaw is slow and inefficient. Free trade is the cure.

With free trade in *second-hand* vehicles, the Indian transportation industry would arrive into the modern age. If these vehicles are allowed in at low duty—the proceeds dedicated to a road fund—then the cycle-

Unless it is clear as to what is ‘mine’ and what is ‘not mine’, no trade, not even barter, is possible.

rickshaws, auto-rickshaws, and other polluting relics of socialism would be history. With better roads and traffic regulation, pollution would lessen and the air would be much cleaner.

Thereafter, taxation can be used to keep the air clean. If we tax heavy polluters heavily, and impose no taxes on clean technologies, people will be encouraged to switch to clean technologies and the air would remain clean.

Collective action is required in traffic management, an essential part of law and order: a PUBLIC GOOD. Socialist India has neglected both roads as well as traffic management. With better roads and scientific traffic management, free trade in second-hand vehicles and taxation to encourage clean technologies, we will obtain much better air in our cities.

Clean Water

Picture our situation: the earth is made of seven parts of water, but water is scarce. The earth has very little oil, but diesel and petrol are available in plenty. What explains this curious phenomenon?

The only reason is that there is a market for oil, but there is no market for water. The state owns all the water and distributes it as it sees fit. Farmers in Punjab get free water with which to grow rice (which needs 21 waterings) but water is scarce in Delhi, although there is willingness to pay.

I was in Dehra Doon once and heard complaints about water shortages. The town has the mighty Ganges flowing on one side, and the mighty Yamuna flowing down the other. Why is there no water in Dehra Doon? To find the answer, visit Dakpathar, an irrigation town 40 km from Dehra Doon. There you will find that the state is damming river water and dispatching it free to Punjab farmers. The town of Dakpathar is also a ghost town amidst beautiful landscape because the irrigation department is broke and makes no profits from water. The townspeople of Dehra Doon would pay for water, but the state is not interested in water markets.

The earth is made of seven parts of water, but water is scarce. The earth has very little oil, but diesel and petrol are available in plenty.

The solution, again, is PROPERTY RIGHTS.

If we had shared property rights to river water and ground water we could sell surplus water in a water market. Someone would be buying river water in Punjab and selling it in Delhi. The Punjab farmer might also find it preferable to sell his water rather than use it

to grow rice (when the water is not free of cost).

The Narmada Dam agitation also showed that big dams are a technology promoted by the state. The tribals have no property rights on river water, and the water is stolen by the state and diverted to those the state feels need it more. If there were property rights on water, the dam owner would have to pay tribals for the water, and he would then have to sell that water to those who want it. The absence of free water might make big dams uneconomical. It might make desalination plants economical and, instead of big dams, we might have hundreds of desalination plants all over the coast, huge water pipelines (like oil pipelines) all over the place, and a general abundance of fresh, clean water that everyone would willingly pay for.

NEITHER IN HOUSING, AIR, OR WATER IS THERE ANY NEED FOR STATE ACTION.

THERE IS NEED FOR FREE TRADE AND THE ENFORCEMENT OF PROPERTY RIGHTS.

Species Extinction

Note that tigers need state protection but goats, chickens, pigs, and cattle do not. They survive and face no threats to their survival simply because they occupy NICHES in the market economy. They are not subject to poaching, they are governed by property rights (someone owns them) and, although they are killed aplenty to feed human beings, they are assured of survival. Similarly, fruit and vegetable species in use in the market economy survive. Rare plants would survive if the pharmaceutical industry could use them, or if they could be used to decorate our gardens.

Emus and ostriches survive today on poultry farms. Crocodiles have been saved from extinction just because they are now farmed. Such ideas would help species survive better than the approach so far taken: having laws against trade and placing sanctuaries under government ownership and control. Note that the wilderness is also a commodity that can be sold for tourism, nature study, and photography. Hunting can be a sport if there are ranches which breed species and allow recreational hunting. In the US there is a private Nature Conservancy Organisation that collects funds from members and simply buys up millions of acres of forest. It then preserves the wilderness as its members' private property. Thus, those who value wil-

derness “put their money where their mouths are.” On the other hand, when the state takes over forests, the poorest pay the price: the tribals who have been living there for generations.

Further, government owned sanctuaries are prone to a particular economic problem, to which we now turn our attention:

The Tragedy of the Commons

If there is a common pasture, over which there is no ownership, and if there are a few shepherds who graze their sheep there, theory predicts that they will each overgraze *rationally* and ultimately destroy the pasture. This is because each will think that, if he does not let his sheep eat the grass, the other shepherd’s sheep would. This sort of rational behaviour by each of them will ultimately destroy the pasture.

Or, to take another example, suppose there was a large pond with plenty of fish in it and there were a few fishermen who lived nearby. When no one owns the pond and all the fishermen are competing for the fish, theory predicts that they will *rationally* destroy the fish. Let us see how.

Suppose a fisherman were to net a small fish, ideally he should throw it back into the water. But in the above situation he will not do that

Property rights are essential for looking after the environment (forests, water, rental housing) because each threatened good will find a niche in the market economy and survive.

because he will think that if he does not get the fish, the other guy will. Thus, with each fisherman thinking this way, the pond will soon have no fish left—simply because it is a common resource, with no owner.

Property rights are essential for looking after the environment. If we could establish property rights over forests, water, rental housing as with everything else, the environment will be better preserved because each threatened good—housing, drinking water, plant and animal species, forests, the continental shelf—would find a niche in the market economy and survive. Today, each is suffering from a “tragedy of the commons.”

THE MARKET IS GOOD FOR THE ENVIRONMENT IF PROPERTY RIGHTS ARE ENFORCED.

ALL ENVIRONMENTAL PROBLEMS ARE CAUSED BY THE TRAGEDY OF THE COMMONS. It is common property—like the air, the river, the forest, the tiger—that gets destroyed or polluted. Property

rights are the cure. You can either sell the common property or else charge a fee for using it—a charge, for example, to spew smoke from an industrial chimney or discharge effluents into a river. These taxes would make people switch to cleaner technologies. The tragedy of the commons would be averted.

The “Polluter Pays” Principle

Suppose you are the King of Benares, and all the citizens are inordinately fond of Benarasi *paan*. They chew *paan* and naturally spit all over the place. This is a problem of pollution. This is also a tragedy of the commons: they spit in public places which no one owns. How are we to cure it?

Choice 1 is to ban *paan*. But those who believe in liberty do not believe in bans. A ban would take away freedom. We must therefore think of a better way.

The “polluter pays” principle says that a tax should be levied on everyone who spits *paan* juice in a public place. What would happen if this tax was imposed (and collected)?

Within days, *paan* chewers would go around with spittoons. They would be possessed of the basic economic rationality to adopt environment-friendly technology.

Similarly, if vehicles were taxed according to the pollution they cause, those who own old vehicles—the relics of socialism—would be encouraged to switch to Euro II compliant new models—which should not be taxed at all.

The “Shortage of Natural Resources” Bogey

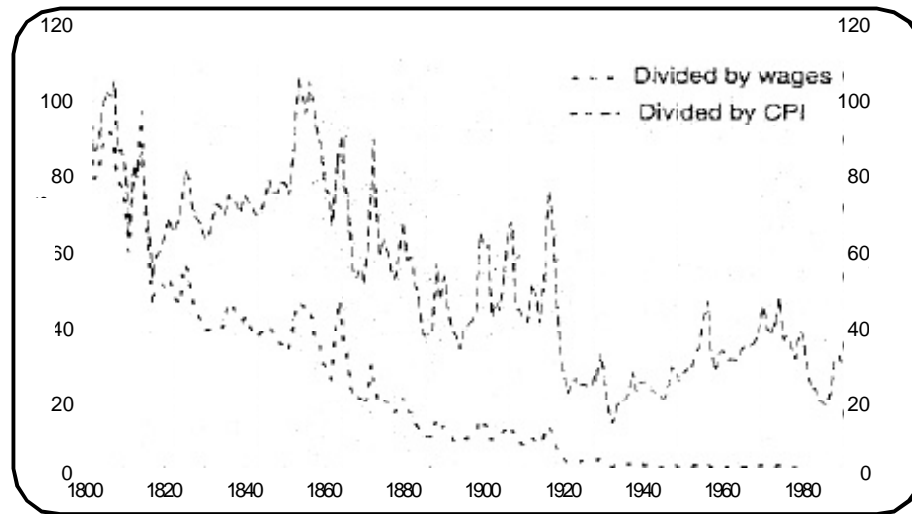
When people like us say that population is an obvious cause of prosperity—humans are the only species capable of creating wealth, and every dot on the map is densely populated and rich—people like them talk of the “scarcity of natural resources.” They say that more people on the planet means all the “scarce” natural resources will be used up.

The question of natural resource scarcity was taken up most thoroughly by Julian Simon. He studied long-term price trends and came up with a curious finding: that the prices of all natural resources, indexed to wages and inflation, have been steadily falling over the past 200 years despite the fact that, during this time, the population of human beings on the planet has more than quadrupled.



This was indeed a curious find. If the argument being doled out by those who believed that more human beings meant a strain on natural resources was true, then the prices of all natural resources should rise, not fall. But they were indeed falling, and that too, very steeply. For example, see copper prices over the past 200 years.

The Scarcity of Copper as Measured by its Price Relative to Wages and the Consumer Price Index



Copper is a widely used metal. It is available only in a finite quantity in nature. Human population has quadrupled. What explains the fall in copper prices? It is after coming up with a host of price graphs like the one above that Julian Simon came to an amazing conclusion: That more human beings mean more resources, not less.

Accordingly, in 1980, Julian Simon did something very unusual for an academic: he put his money where his mouth was and offered a bet. Select any 5 natural resources and let us make a basket worth \$1000 comprising \$200 of each resource. Then, let us take up the value of the basket in 1990 (after 10 years). If the prices rise, you win. If they fall, Julian wins.

Paul Ehrlich, author of *The Population Bomb*, accepted Julian's bet. And lost \$576.07. The combined basket, which was worth \$1000 in 1980, was worth only \$423.93 in 1990. The five natural resources Ehrlich had selected were: Copper, tungsten, chrome, nickel, and tin. These are all heavily used. How come their prices fell so much?

The reason is again a "conflict of visions." Ehrlich is a biologist

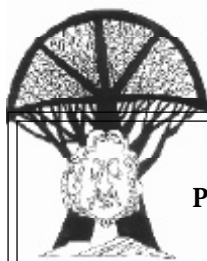
with a simple theory: the world is made up of finite resources and if Man multiplies too much, there will be less to go around. There will be shortages. Julian Simon, on the other hand, was an economist who carefully studied long-term price trends. His vision was of a huge planet with abundant resources. These resources come into play only when humans use them. Thus, the more humans there are, the more resources. Human beings are “the ultimate resource.” Indeed, it is also true that although humans have quadrupled in the last 200 years, the price of human beings—wages—has gone up! All natural resource prices have gone down, but the price of human beings has gone up!

To understand the fatal flaws in the natural resource scarcity argument, let us take the case of oil as a source of energy. Its prices are artificially high only because a cartel is cutting down supply, otherwise they too would fall. Is this wise on the part of OPEC? For, after all, when oil prices are high, then economics is on the side of those who search for substitutes. And sure enough, I saw fuel-cell cars on display at the Geneva Motor Show. This technology will make itself felt within a decade. General Motors has announced it will start commercial production of fuel-cells that will run offices and homes by 2006. Long before the world runs out of oil, humanity would have moved on to cheaper alternatives.

Human beings are not a problem. Human beings are resourceful. The human mind, as Julian Simon said, is the ultimate resource. It brings in more and more resources in play from the Earth’s bounty. Take the history of energy. When Britain began industrialising, charcoal was used to make steel. This depleted Britain’s forests. The human mind responded to this challenge by mining for coal. This was hugely profitable as charcoal had become scarce. Over time, the woods of Britain re-appeared as coal became the chief source of energy. Then, whale oil was used for lighting lamps. Whales were hunted to near extinction and whale oil prices naturally rose. The human mind responded to the challenge by discovering oil under the ground. Then came electricity. Today, you can take coal to Newcastle. There is no mining, but there is still coal under the ground. It has not been exhausted. Similarly, there will always be oil and natural gas, for the human mind will come up with alternatives. Even these non-renewable sources of energy will not be completely exhausted, ever. The price of energy will prompt the search for substitutes.



Let tigers and lions
breed on your farm
Crocodiles and antelopes too.
Endangered species will
be safe from harm
(I'm not quite so sure about you!)



POINTS TO PONDER

- There are no high rise buildings in Kathmandu. Can you guess how this is related to property rights again?
- What can be done about shopkeepers who pay tiny rents for properties that are worth millions today and therefore oppose the lifting of rent control?
- Pick a metal and study its price over the last fifty years.



chapter 11

Bureaucracy and the Future of Public Administration

Bureaucracy is an organisational system based on four principles:

- **Hierarchy:** which means that you will always work under those who are senior to you in age, irrespective of MERIT. This promotes the RULE OF THE AGED. In bureaucracies, youth sacrifices itself to the aged.
- **Impersonality:** which means that it is the desk—the BUREAU—which takes decisions as per rules and not the officer on the basis of his personal bias. Another word for impersonality is impartiality.

- Career: a lifelong commitment to serve the order.
- Expertise: it is supposed to provide RATIONAL, KNOWLEDGE-BASED GOVERNMENT. Judging by the traffic in our cities, Indian bureaucrats do not possess the knowledge with which to conduct our common affairs. This is also known as FUNCTIONAL ILLITERACY.

The characteristics of bureaucracy are easily remembered by the acronym HICE.

It is the chosen method of organising government services worldwide, but it has its disadvantages, which must be understood in a KLEPTOCRACY.

Bureaucracies provide careers in which youth sacrifices itself for the old. Bureaucracy therefore promotes the RULE OF THE AGED. Since we wish to change India, it is essential that our intelligent youth do not sacrifice themselves in careers that prop up the misrule of the aged.

There is an alternative to bureaucratic organisation: THE NEW PUBLIC MANAGEMENT OR FREE MARKET PUBLIC ADMINISTRATION.

Free marketeers believe in very limited government, dedicated *solely* to the provision of PUBLIC GOODS AND SERVICES.

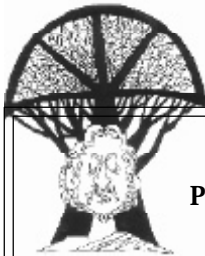
These can be provided much more easily if there were to be a sole official CONTRACTING-OUT the job to competing private suppliers. For example: garbage collection. If we do it bureaucratically we put an official in charge of a monopolistic DEPARTMENT which recruits sweepers, purchases trucks, and brooms and so on. We notice that the BUREAU CHIEF spends most of his time processing BUREAU INPUTS: he looks into the personnel problems of his staff (leave, discipline, promotions and so on); he looks into the purchase and maintenance of trucks and brooms. He has little time to process BUREAU OUTPUT: to see to it that the town is actually being cleaned up.

If we apply NPM and CONTRACT-OUT garbage collection, the sole official we need will actually be able to see that the work is being carried out as per contract. Thus, we will get efficient public services. There is also the strong possibility that, with COMPETITION AND CHOICE, there will be many bidders for the service and the actual costs will come down. This will help control the FISCAL DEFICIT and thereby help to usher in SOUND MONEY.

There is a lot of literature on NPM and it is a growing movement in public administration worldwide. Young Indians who wish to work in administration in the future should explore this PARADIGM and study further.

The essential point to note here is that it is possible to have a lean government that is not bureaucratic and which provides public goods and services with high cost efficiency. Such a system of public administration is what our young people should usher into India.

When age matters, and not merit
What earthly good can come of it?



POINTS TO PONDER

- What are the services that you expect from your local government at the municipal level. Are any of these services being performed satisfactorily today? How can NPM make things better?
- If you were to become a public official—either elected or appointed—how would you deal with the problem of massive overstaffing in government departments?



chapter 12

Knowledge

The division of labour is the key to the production of wealth in a free market economy. This division of labour is also accompanied by THE DIVISION OF KNOWLEDGE. This is most visible if you pay a visit to a newspaper office or a modern hospital. But it is also visible in the humdrum world around us where *dhobis*, carpenters, plumbers, receptionists and so on work, each with very different kinds of knowledge.

SOME OF THIS KNOWLEDGE IS UNCODIFIABLE.

That is, there is a lot of knowledge that cannot be written down. For example: You buy a coconut in the market. The product also contains the “knowledge” of the man who knows how to climb the coconut tree

and harvest coconuts. Can this knowledge be codified?

If you want to be a good cyclist, swimmer, pastry chef or violinist, you cannot just read a book and do it. You must have hands-on experience.

The market relies on each of us to bring into play his or her own special knowledge. The planner believes he can collect this knowledge and plan the economy. Because the planner cannot collect all the knowledge required—since much of the knowledge is uncodifiable—planning is bound to fail.

**MARKETS USE KNOWLEDGE WITHOUT POWER.
PLANNING USES POWER WITHOUT KNOWLEDGE.**

The complete definition of Economics is:

ECONOMICS IS THE STUDY OF THE PRODUCTION OF WEALTH THROUGH THE DIVISION OF LABOUR AND THE DIVISION OF KNOWLEDGE.

There are certain implications of this definition:

- Economics is not a study of poverty.
- Self-sufficiency or *swadeshi* is not Economics, because it is not based on the division of labour.
- Planning is not Economics because it is not based on the division of knowledge.

Thus, with planning, because of knowledge failure, there will be shortages: of power, of water, of housing, of railway berths, of gas, of everything. All these shortages would disappear in a free market which brings in ABUNDANCE.

This further implies that, for a closed economy like India's, free trade will bring with it a knowledge explosion as millions of our people get to learn of new products, processes, techniques and technologies. If the country wishes to get abreast with the knowledge levels in the outside world, it needs to practice free trade.

This is counter to the advice given by socialist economists like the Nobel laureate Amartya Sen that the country will lose out in globalisation unless the state first takes up education of the people. Our analysis of what constitutes KNOWLEDGE (and distinguishes it from EDUCATION) suggests that free trade and free immigration are the best ways of allowing knowledge to spread freely through the land. Keeping out the world through trade barriers and promoting state education is a recipe for disaster.

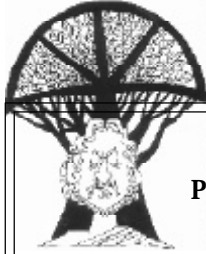
It must also be noted that, in a kleptocracy, it is dangerous to ask the state for knowledge. The state is not a lamp of learning: its functions are negative—the protection of life, liberty, and property. The state is not a university. There is no one in the state—in the political market—who is in the knowledge business. The state does not possess knowledge itself. Our public administration would not be such a mess and our economy would not be such a miserable one if the state had knowledge. Since it is ignorant, the state cannot be allowed to take up the role of universal teacher. It must be got out of the knowledge business which must be left free to those with knowledge to impart.

Note that India now exports software engineers. Note also that all these engineers were educated by for-profit private enterprise completely unregulated by the state: firms like NIIT, Aptech, and so on. We need private firms setting up chains of schools and universities, bringing in knowledge and disseminating it. The socialist state's educational authorities are all failed propagandists. Their "knowledge" should be rejected in its entirety. No one should study anything prescribed by the socialist state. The ministry of human resource development should be closed down. Its present incumbent, Murli Manohar Joshi of the BJP, wants to teach astrology in Indian universities funded by the taxpayer. Who wants his "knowledge?"

All knowing,
All seeing,
Our destiny
the state will plan.

Not knowing,
Not seeing,
It's not a god,
but mortal man.





POINTS TO PONDER

- Think up various examples of uncodifiable knowledge.
- Consider the roadside motor mechanic: What policies will increase his access to knowledge?
- Success in the market economy depends on the division of knowledge: specialisation. What curriculum system in schools would you recommend that would facilitate specialisation amongst knowledge seekers?
- Should political economy be specialised knowledge? Or should it be part of general knowledge?





chapter 13

Public Goods II

How to beat the trap and set them free

We have already examined the proposition that public goods need to be supplied by the collective, through tax revenue.

But that should not mean that the market and private entrepreneurs should not be allowed to enter the provision of public goods. Take the case of radio or television broadcasts. They are, according to the standard textbook definition, public goods, because no one can be excluded from their consumption and, further, when we consume these, we do not reduce the consumption of others. Yet radio and television broadcasts come to us free, without state spending—because they are combined with private goods: advertisements. You see live cricket free because various firms want



to catch your eye with their advertisements. Similarly, lighthouses were considered public goods, but the great economist Ronald Coase showed that, in England, lighthouses came up in the private sector because they were allowed to share in the tolls charged by nearby private ports: private goods. In this way, by combining private goods with public goods, we can obviate the need for state monopoly on this score. A good example to take is of an underground pedestrian subway.

Theoretically, there is no reason why a private entrepreneur should make a pedestrian subway because there is no way he can charge all those who use it. It is possible, but it is just too cumbersome. What is the way out?

It could be possible to develop some real estate in the subway to set up cafes and shops. These cafes and shops would be in hot demand because there would be a lot of people walking in front of them: potential customers. If private developers are allowed to set up subways with shops in them which they can rent out or sell, this essential public good could be supplied free to pedestrians by the market.

It is important to get the private market into supplying public goods, because the political market has too many dysfunctions. It cannot be relied upon. Take the example of the state's investments in pedestrian subways in Delhi. South Extension is bisected by the busy Ring Road. There are two important markets in South Extension, one on each side of the road, but there is no pedestrian subway; though here, one with shops in it would be a huge hit.

However, if you go to the offices of the *Times of India* on Bahadur Shah Zafar Marg you will find a subway with two large shop spaces in it where the state has set up a state-owned cafeteria: a "Media Café" run by Delhi Tourism! Does this manner of public good provision make sense?

For this reason it is important to look for ways by which public goods can come from the market.

- Localities—even entire townships—can come up where the developer and the residents pay for the internal roads and internal security.
- Intercity expressways can be provided by private sector developers if we combine these with real estate development—townships, supermarkets, malls, eateries, petrol stations, and billboard advertising.

In this way, we can build a MINIMALIST STATE and create a large space for FREE CIVIC SOCIETY.

Why depend on the state
For what we need
When the private sector
Can do the deed?

Private policing,
Roads, subways and more—
We can do it all better
Isn't that for sure?



POINTS TO PONDER

- Think of all the public goods that can be combined with private goods and supplied by the market: for example: street lighting, or street signs.
- With a minimalist state, there would be very few tax financed services and hence very few taxes. Can you think of all the tax financed services you would still require?
- Will these be provided at the local, state, or central level?



chapter 14

Moral i ty and Secul ari sm

Critics of the free market economy maintain that it is inherently immoral because it is based on GREED: the ugly profit motive. Is this a valid criticism? It is important to understand why because public morality is extremely low under socialism—the word “scam” occurs everyday—and kleptocrats should not be allowed to get away by calling economic freedom immoral.

The free market economy is a way in which human beings cooperate with each other. When the division of labour takes place, and we have goatherds, washermen, policemen, dentists, plumbers, and electricians, we actually find ways in which we ease the burdens of other people.

We specialise in the free market economy because we believe that by doing so we can find ways of satisfying the needs of our fellow citizens. Of course, we also benefit. We do so for a profit. But is profit making immoral?

Try a small experiment with your lunch. Look at what it contains. Think of those who produced all those ingredients—the rice, the lentils, the vegetables, oils, and spices—and consider whether all these people provided you with your lunch because they loved you. Indeed, they do not even know you. If you had to rely on their love for you—that they would, each of them, stock your kitchen with rice, vegetables, spices and lentils—would you get your lunch? You would most likely starve. The profit motive may sound greedy, but it works. We do not get water and electricity because they are being charitably disposed of by the socialist state.

Now try another experiment. Think of what you do, or what you would want to do when you grow up. Would you engage in the division of labour out of a love for humanity or out of your own desire to succeed in this difficult world, raise a family, and possess the essential comforts of life? Most people will answer: I specialise in the division of labour in order to extract the maximum benefit for myself. I never refuse a pay hike. Many will answer: I will become a doctor and go out into the wilds of Africa to cure the sick. The latter are gems beyond compare. The free market economy definitely believes in the THIRD SECTOR: the voluntary organisations which do so much good work. But it is mainly based on greed. This greed is a good thing. The good doctor in the wilds of Africa would need modern drugs produced by greedy drug companies. Most voluntary work survives on donations from those who work in the market economy and generate profits.

The free market economy is moral, even though it is based on greed. The fact is: BOTH SIDES GAIN IN TRADE. The electrician who fixes my fuse charges me fifty rupees and gains, but I pay him fifty rupees and gain as well. To take another example: the vegetable vendor. I buy a kilo of potatoes from his cart outside my house. He gains. He has paid less at the wholesale market. But if I take the trouble and expense to go to the wholesale market and get my potatoes it will cost me far more. Thus, though the vendor gains, I gain as well.

TRADE IS A POSITIVE SUM GAME.

In this way, the free market economy is one of the *secular founda-*

tions of human morality. This is how morality arose before religion. In primitive times, when people went to the village square with the little that they had to exchange—some fish, a pumpkin, some meat—they found a moral way of interacting with each other: through GIVE AND TAKE. When they engaged in give and take—a *moral exercise since no one is stealing*—they discovered that it was only possible if some basic rules were obeyed by all the players: first, an understanding of what is “mine” and what is “thine”: property rights; and second, some way of ensuring that anyone who disregarded these rights—who stole—was punished and the goods returned to their rightful owner. That is, “thou shalt not steal” is the basic moral rule of the market economy. The enforcement of property rights must be the basic law and the essential duty of government. The socialist Constitution of India does not guarantee the property rights of citizens. Socialist law engages in legal plunder: nationalisation, rent control, land redistribution.

SOCIALIST LAW IS IMMORAL.

FREEDOM IS MORAL.

Having shown how the market is one of the secular foundations of human morality, it becomes necessary to proceed further and inquire into whether the main religions of India—Hinduism and Islam—are opposed to the free market.

Hinduism was the first religion in the world to discover the morality of the market—in just two little words: *Shubh Laabh* (or profits are auspicious, profits augur well for society). This is a great philosophical discovery of the Hindus which should be ranked higher than their discovery of the “Zero.” The West had to wait for the year 1776, when Adam Smith, a Professor of Moral Philosophy, said much the same thing in a voluminous (but easy to read) path-breaking work called *An Inquiry into the Nature and Causes of the Wealth of Nations*. Till then, Christian scholastics simply could not understand the morality of the market. Adam Smith showed how, when rational self-interest prevails, and is free from state interference, the good of society is promoted by an “invisible hand.” He showed how this makes society both prosperous as well as moral. As Lord Acton, also a moral philosopher, later added: Power corrupts and absolute power corrupts absolutely.

FREEDOM IS MORAL.

POWER CORRUPTS.

If society was composed entirely of profit-seekers in a free market economy, it would be moral. Powerful socialists have corrupted society with their economic restrictions. They imposed these restrictions to protect us from the harmful effects of greed. But greed is better than kleptocracy.

Islam is a religion based on the free market. The Prophet Muhammad, peace be upon him, was a free trader, as was his wife, Khadija. The Islamic calendar begins with an incident of free immigration: the flight from Mecca to Medina. Islam actively encourages entrepreneurship, protects property rights, and discovered the theory of free trade long before Adam Smith. Islam also has rules on “unjust profit.”

True secularism in India cannot come about without a free market economy. The market is one of the secular foundations of human morality. Both Hinduism and Islam believe in the free market. They will peacefully co-exist if we stress their fundamental commonness and ignore their differences.

The notion that freedom brings about morality while power corrupts can be best understood by participating in a little thought experiment.

Take a tray of bananas and carry it before a group of monkeys. What will happen? The monkeys will steal your bananas.

Now take another tray of bananas and go someplace where there are no monkeys but lots of human beings: a market: Connaught Place; Brigade Road; Chandni Chowk... What will happen? No human being will steal your bananas. If they want them they will come up to you and politely enquire as to how much they are worth. Man is a moral creature simply because he has the ability to trade: to take and give in exchange. The monkey steals because he cannot give up anything in exchange for what he takes.

Now, to see how power corrupts, hang around in the market-place a while longer and observe who are the monkeys amongst us: you will see policemen and municipal functionaries extracting goods for free—the *huftha* brigade. They are the extortionists who operate on the poorest of the poor in the market. This is the cutting edge of kleptocracy.

Good Manners

Human beings are not only moral, they all possess what is called “the core of all morality”: good manners. These manners have arisen because human beings need to co-operate with each other in the market economy and manners aid us in mutual co-operation. Good manners are the grease which lubricates the wheels of everyday economic exchange. Notice how shopkeepers are always polite and government *babus* are inevitably rude.

In a completely free market, without any state controls, rewards will not go to those with connections or those who use force: *dadagiri*. They will go to those who work hard to provide for the needs of fellow citizens, and these people will all be well mannered—the only way to succeed in a state of freedom. This is why Lucknow was famous for its manners once and Bengal bred *bhadraloks*. All manners have been destroyed by practicing socialism for 50 years.

Reputation

Morality, in the free market economy, is in the LONG-TERM INTEREST of all players. In the short-term it may make sense to cheat and steal, but this does not work in the long-run because cheats and swindlers are quickly found out and lose all their customers. Thus, REPUTATION is hugely valued in the free market.

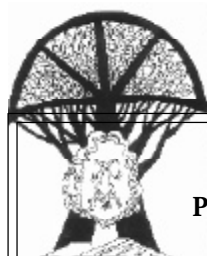
BRAND NAMES are all based on reputation. If you take home an unbranded product like, say, loose turmeric (*haldi*) powder, you may find it adulterated. On the other hand, if a major brand is guaranteeing purity, you are sure of getting value for money because the brand values its reputation highly, and will not tarnish it for short-term gain.

Thus, to conclude, freedom brings about morality and good manners. Reputation promotes moral behaviour as being in the long-term interest. On the other hand, power corrupts. It is excessive power that has created our kleptocracy. These powers must be taken away and the people given economic freedom so that our society may be moral.

This morality, based on the secular foundation of the free market, with its respect for property rights, is one that will enable Hindus and Muslims to co-exist peacefully, as both religions are based on market morality.

Their fingers itch
To get rich
The crookedest, easiest way.

Their power will flop,
Corruption will stop
When free markets come here to stay.



POINTS TO PONDER

- Parsi surnames—Daruwalla, Sodawallah, Screwallah and so on—are based on the division of labour. Parsis are a rich Indian community. What does their religion say on the free market?
- What about Jains and Sikhs?
- Does the argument “better government can be obtained by putting better people into the government” hold? Or is power always a corrupting influence?



chapter 15

Freedom and Equality

Freedom as the Supreme Political Value

Socialists also criticise the free market economy on the grounds that it tends to promote inequalities. They believe that, with state controls, they can promote EQUALITY. This was Jawaharlal Nehru's grand vision of a "socialistic pattern of society."

Those who believe in the market do *not* believe in EQUALITY. They believe in FREEDOM.

FREEDOM FROM THE STATE.

That is, let us be as close as possible to a state of nature: what Adam

Smith called “natural liberty”. If we look at nature, we see a wide variety of plants and animals. We see short grasses and tall trees and all the bushes, creepers and vines that nature will support. We do not see equality. We do not see uniformity. The socialist vision—what Nehru called the “socialistic pattern of society”—was one of uniformly trimmed hedges, with the state acting as gardener. Today, it is obvious that the gardener is ruining the garden in pursuit of his own selfish interests. Society would be better off without the gardener. It would grow free and wild. A free market, without state controls, provides a natural eco-system to the human species in which we can all specialise, find niches, and survive. There will be tall trees and short grasses—and bushes and vines. There will be some who will receive huge rewards for their skills—like Sachin Tendulkar. Let no one attempt to enforce artificial uniformity.

The important point to note is that FREEDOM COMES FIRST.

FREEDOM IS THE SUPREME ECONOMIC AND POLITICAL VALUE.

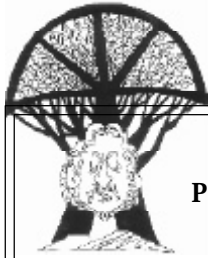
When we place freedom first, we are free to be what we want to be and do what we want to do. If we place any other value (like equality) above freedom, we lose our freedom in a fruitless quest.

The socialists never promoted equality, although they took away our freedom. They have created a *Ji Huzoor, Mai Baap*, VVIP CULTURE in which everyone who is a commoner has to bow and scrape before those in authority.

LET US REJECT THE SOCIALISTS’ FALSE VISION OF EQUALITY AND OPT TO BE FREE FROM THEM INSTEAD.
FREEDOM FIRST!

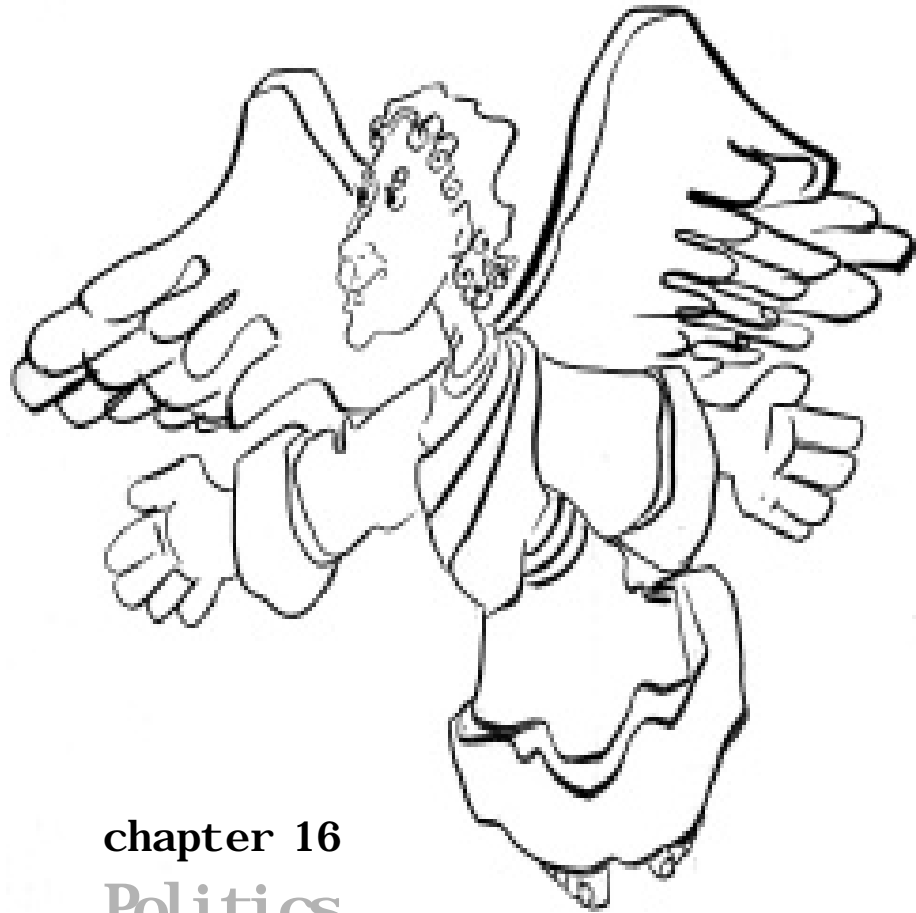
I don’t need the state to tell me
what to do.
Mum and dad are quite enough
thank you.





POINTS TO PONDER

- Why do we get together and form a collective like a State?
- What do we seek from the State?
- What political value should we uphold if we want to ensure that the State is not too powerful, State personnel are not misusing powers, and that public morality exists?
- What are the advantages of having inequalities in society?



chapter 16

Politics

What is Politics?

- Wearing a T-shirt supporting human rights is politics.
- Putting a bumper sticker on your car saying “No to Nuclear Weapons” is politics.
- Giving a lecture to slum dwellers on rent control is the POLITICS OF KNOWLEDGE.

POLITICS ARE THE PUBLIC ACTIONS OF FREE PEOPLE.⁶

⁶ Professor Bernard Crick coined this definition in his widely read textbook, *In Defence of Politics*.

That is, active citizenship is politics. Joining a centralised, hierarchical political party and following the dictates of a “leader” is not politics: it is slavery; it is fascism.

There is no need for parties to practice free politics. It is not just about politics against the government: it could be free politics against a polluting industry; it could be free politics against a cheating multinational. Citizens who are active in free politics are gems beyond compare and breathe life into democracies.

You can participate in all these kinds of politics and contribute to a healthy and vibrant democracy.

So, have faith in yourself and in the fact that you can survive best if left free to gain knowledge and specialise in a free market economy, free to practice politics and take an active interest in the world around you.

BELIEVE WITH ALL YOUR HEART IN FREEDOM!

In India, there is law against the formation of political parties that are not SOCIALIST. Thus there is no free market party. The democracy is restricted to socialists: we are free to choose amongst various alternatives, all of which are socialist. There was once a Swatantra Party led by liberals like Minoo Masani, but it was destroyed by Indira Gandhi who amended the law to ensure that no new free market party is allowed to legitimately be set up.

THIS SHOULD BE STRONGLY CHALLENGED.

To reiterate: There are three pillars of a free society:

- The political freedom of DEMOCRACY. Here, ours is restricted to socialist parties.
- The economic freedom of the FREE MARKET. Here, statism rules. Free trade must be ushered in with SOUND MONEY and PROPERTY RIGHTS.
- Liberal education: that which teaches THE VALUE OF FREEDOM. Here, state education is shameless STATE PROPAGANDA.

**WE HAVE A LONG WAY TO GO TO BUILD A PROSPEROUS, HEALTHY, CLEAN, AWARE, AND FREE SOCIETY.
LET’S START!**

Save the whale!
Don't make wars!
Free Tibet!
Choose your cause.

Put it on a button
Stick it on your car
Take part in politics—
Age and sex no bar!



POINTS TO PONDER

- There are all kinds of political creeds: communists, socialists, and so on. Those who believe in freedom call themselves LIBERTARIANS. What do you call yourself?
- Whatever you call yourself, how can you best practice your politics?

