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Urban reform gets going

Why does capitalism succeed only in capitalist nations and fail in so many others? This, of course, is the famous question posed by the Peruvian economist, Hernando de Soto, who explained this by arguing that most developing countries locked up valuable capital by making it difficult for firms to start businesses, to shut them down, and so on — de Soto's framework is the basis of the World Bank's annual global survey on Doing Business. High on this list is land title — wherever this is not clear, as is the case in India, it becomes difficult for buyers to buy land, for landowners to raise money using their land as surety, and to develop a vibrant market for mortgages. In the event, valuable capital which can be leveraged for creating economic value gets locked up. Indeed, the quality of land records is so bad that in states like Maharashtra, the statute even says "no suit shall lie against the state government or any officer in respect of a claim to have an entry made in any record … that is maintained in this chapter or to have any entry omitted or amended". That is, if you buy a house based on the government's land records and are not able to take possession later on account of a dispute over ownership, you can't sue the government for having failed to keep accurate records. Indeed, given that a large proportion of court cases in the country relates to cases involving unclear property title, the legal costs are another huge cost that the country has to bear. So it is not surprising that, some years ago, the consulting firm of McKinsey & Co estimated that India's GDP would grow by around a percentage point more if the problem of doubtful land title was resolved.

There have been sporadic attempts to fix this across the country, but no sustained effort. Now, it appears that, as part of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), at least three states are working on fixing the problem of dodgy titles — under the Rs 50,000 crore JNNURM, states can access low-cost funds provided they promise to carry out various reforms, ranging from lowering stamp duties on land transfers to getting rid of archaic rent control laws and going all the way to fixing land records. The models being adopted by Rajasthan, Andhra Pradesh and Karnataka are all different, but the end result will hopefully be the same — in the cities where the programmes are to be rolled out, the state will directly or indirectly guarantee titles to land as recorded in the official records. So, if you buy a property based on official records and the property falls into dispute, the buyer will be compensated. While the cost of failure appears high, for the state as a whole it is probably a win-win situation — if the number of property transactions rises once buyers feel confident that the title is clear, stamp duty collections will rise commensurately and, till the time they do, the JNNURM funds will help tide over any problem. If the JNNURM succeeds in getting all states to reform land laws and, as a result, unlocks huge swathes of capital, it will be money more than well spent.

Unfit to lead

The annals of horse trading in Indian politics are strewn with many oddities, but none is odder than two Karnataka coalition partners being unable to pull along because one will not sign an agreement on stamped paper on the dos and Nandi infrastructure corridor linking Mysore and Bangalore. What is often forgotten is that the agreement was signed when Mr Gowda was prime minister and his protégé, J H Patel, was the Karnataka chief minister, doing nothing without his say-

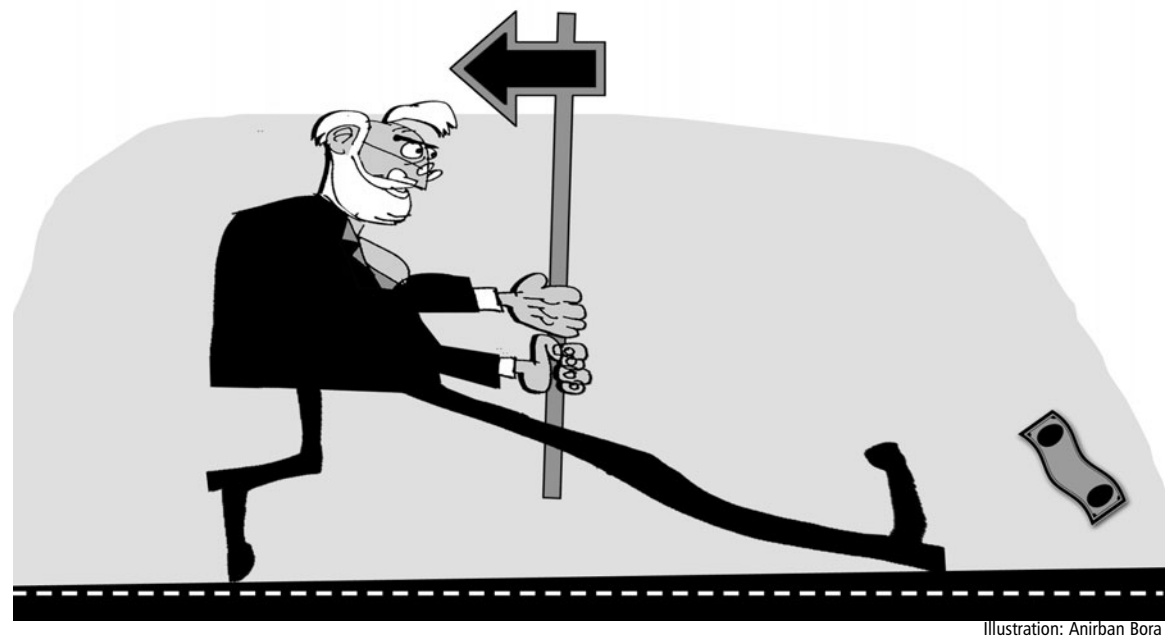

Illustration: Anirban Bora

The conundrum of sovereign investment

AUTHORITARIAN CAPITALISM II / DEEPAK LAL

In my last article I had outlined how Russia has now joined the other former Communist countries — China and Vietnam — in embracing what can be called authoritarian capitalism. The economic prosperity this has brought is now being reflected in large foreign exchange resources accruing to the State, which are increasingly being used to buy shares — including outright takeovers — of Western companies. The resulting role of "sovereign wealth funds" and State-controlled companies in the global economy is now being hotly debated. But the discussion has been vitiated by the reluctance of the participants (notably in the *Financial Times*) to get to the political heart of the matter by calling a "spade a spade". This article attempts to fill this lacuna.

Authoritarian capitalism needs to be distinguished from corporatism. It combines varying degrees of economic freedom with political repression. The economic freedom is circumscribed by a major role for the State, with its close relationship with industrial enterprises and the banking system. In its economic lineaments it is a variant of the corporatist model pioneered by Bismarck in Germany in 1871, and adopted by the Meiji reformers in Japan with the promotion of the *zaibatsu*. After the Second World War, despite the attempt by the Allies to institute the alternative Anglo-Saxon form of capitalism, it was resurrected as the "social market" in Germany and in Japan with the *keiretsu* replacing the *zaibatsu*. This corporatism was exported to other Asian countries, most notably South Korea in the 1960s, with the rise of the *chaebol*.

But, despite being in bed with their favoured industrialists and bankers, the governments of the corporatist form of capitalism, nevertheless, saw themselves *politically* as very much part of the West. The unique feature of authoritarian capitalism is that the State openly seeks to use this corporatist form of capitalism for political purposes, namely to perpetuate authoritarian rule by commissars who until recently were in the business of burying the capitalist West. Despite their claims to have changed their spots, there must be the continuing worry that these States will use their growing economic power to subvert Western polities.

Similarly, the other source of worry concerns the role of sovereign wealth funds and State-controlled firms in the oil rich autocracies of West Asia (and anti-Western states like Venezuela). These are also countries in the grip of a variant of authoritarian capitalism. Once again the worry is not purely economic, concerning the most efficient deployment of their recently acquired wealth in the world economy, but that it could be used for anti-Western political ends, like the promotion of a worldwide Islamic *jihad* against infidels and the extinguishing of Israel.

Once the political aspects of the deployment of sovereign wealth by the countries of authoritarian capitalism are openly recognised, many of the calls for the international financial institutions (whose charters prohibit political discrimination) to lay down a code of good behaviour by sovereign wealth agencies seem to be misguided. A code must lay down some general and universally applicable principles. But it is difficult to see how these can be derived when the unstated purpose is to discriminate against some countries that are actual or potential political enemies. Thus consider some of the possible elements of a code.

The most draconian would be to ban all State-controlled entities from investing in Western capital markets or taking over their firms. Though it would have the advantage — at least for classical liberals — that it might force the privatisation of nationalised industries around the world, it would not necessarily lead the States of authoritarian capitalism to cease indirectly directing their seemingly "private" firms to fulfil their political objectives. Whilst at the same time it would make no sense that the State-controlled Norwegian or Alaskan sovereign wealth funds, for instance, could not invest in Western capital markets.

Nor would a ban on sovereign investment in "strategic" industries make more sense. Apart from defence-related industries where foreign investment is already banned, should sovereign investment in a country's media or sensitive infrastructure like local gas and electricity distribution (which are natural monopolies) be banned? Once again, if the Norwegian or Alaskan sovereign wealth fund decided to buy Murdoch's News Corp or my London gas distributor, not many sleepless nights would ensue in the West. But if Gazprom were to buy the local gas distribution networks in Europe (as it has envisaged) I would not sleep easily, as it might decide to cut off the supply to my gas stove, in Putin's ongoing fight with the UK authorities to send his political enemy — the oligarch Boris Berezovsky — back to Moscow. The thought that Gazprom's newly acquired monopoly could be expropriated by the British state would offer me little comfort, as the entrenched rule of law in Britain (unlike in Russia) would prevent this.

There is however one rule of an international club, the World Trade Organisation, which might be adapted to allow the required political discrimination amongst sovereign investors. This is its granting of "market economy" status to countries. Being a trade organisation it would not be the appropriate implementing agency. Also its criteria of a "market economy" would need to be strengthened to allow the required discrimination on *political* grounds. The club of Western-oriented economies — the OECD — by contrast could devise the rules and implement this discriminating "market economy" status. Rigorously applied to the countries of authoritarian capitalism, sensible rules could be laid down for the deployment of their sovereign wealth in the global economy. For instance, unlike those of market economies their sovereign investors would be limited to a minority stake in a Western firm's equity. Takeovers of Western firms by them could be banned. This could solve the current conundrum posed by sovereign investment.