Business Standard

VOLUME XII NUMBER 27

Setting a floor

Yesterday was the first anniversary of the Indian stock market's "black Monday", May 17, 2004, when the BSE Sensex dropped over 800 points during the trading day before closing some 500 points below the opening value of 5021. The NSE Nifty dropped almost 200 points, 12.3 per cent, that day. This was, in many ways, a defining moment for the new government. Uncertainties about the composition of the coalition and the ideological direction it would take compounded the impact of the defeat of a government perceived to be market-friendly. For people who saw the emergence of a Left-dominated coalition as an unmitigated disaster for reforms, the depths that market sentiments plunged to that day provided grim vindication. But life went on, the UPA government was formed, two Budgets and a number of other policy announcements have been made. One year down the road, the BSE Sensex closed at 6528, 45 per cent above its black Monday finish, as did the NSE Nifty. Clearly, the markets have overcome their early nervousness about the new government and seem to be comfortable with the economic environment as it has emerged during its first year.

One could argue the counterfactual, of course; the indices would be even higher if a different formation were to be in office, or that the buoyancy is simply a reflection of a global appetite for emerging markets. But that would be quite unfair to the government. The most reasonable interpretation of this relatively good one-year return on the market portfolio is that the initial fears of reversal of reforms and re-orientation of the policy direction proved to be unfounded. The market panic a year ago was set off by some comments made to TV channels by a couple of communists. They have continued making similar comments through the year, even as the government has gone about its business. Nor has the influence of the Left affected the general buoyancy in the economy, which it might be argued has faced an altogether different problem in the high crude prices.

Indeed, the sterling performance shown by the corporate sector and the evidence of strong business confidence as well as resurgent consumer demand emphasise that there is genuine momentum to the India story. Yes, emerging markets in general did pretty well during this past year. But, importantly, the government did not do anything that either hindered the buoyancy or made investment in India less palatable than any of its peers in the emerging markets portfolio. One should give credit to Manmohan Singh's government for that. Unexpected political change is no reason for the reforms roadmap to be abandoned. Neither does such change appear to harm the short-term performance of the economy. That may well be the most significant lesson from the many changes in government the country has seen over the last decade.

Traditional knowledge

The reported willingness of the European Patent Office (EPO) to not allow granting of patents for traditional knowledge and to products derived from it, should come as a great relief to India. The traditional Indian products used routinely in indigenous and other medical systems are under threat of being patented abroad. In fact, many have already been patented in the US and other countries, requiring India to fight sundry court battles. The EPO, after the formal accord, will start sifting through the digital database on Indian products based on traditional knowledge, before approving patent applications. This database, comprising over a lakh of conventional medicines and other products, is being compiled by organisations under the science and technology ministry.

The EPO move provides protection to Indian traditional knowledge only in its member countries and not elsewhere. Besides, this bilateral agreement is of little use to other developing countries that have large repositories of traditional knowledge. The real need, therefore, is for wide-ranging and globally applicable protection to traditional knowledge. This has not been forthcoming, and such efforts as have been made have been episodic and inadequate. Some protection to traditional knowledge and its products is available under international accords like the Convention on Biological Diversity (BBD), which provides for sharing benefits from the use of traditional knowledge with the owners of such knowledge, and under the International Union for the Protection of New Varieties of Plants (UPOV), which provides for sui generic arrangements in different countries for this purpose. India and many other developing countries have opted for sui generis legislation but the provisions are confined primarily to plant varieties and medicinal products. The United Nations Environment Programme (UNEP) has also issued guidelines for the protection of traditional knowledge but these are related mainly to ecological aspects.

What needs to be realised is that the issue goes beyond the domain of intellectual property protection as defined under the agreement on trade-related intellectual property rights (TRIPs), which has no specific provisions on traditional knowledge. It was for this reason that the Doha Declaration of 2001 had instructed the TRIPs Council to examine the issue of protection to traditional knowledge and folklore. However, not much headway seems to have been made here. Under the circumstances, the World Intellectual Property Organisation (WIPO) of the World Trade Organisation (WTO) may be the right body to deal with this subject.

The nature of the issue being such, no single template or one-size-fits-all solution may be possible since it will not be compatible with diverse national priorities and legal regimes. But some kind of a globally accepted set of common objectives and core principles that could form part of the international legal framework should be drawn up. And the sooner it is done, the better it would be.

Bleeding hearts

It is time we pensioned the Soft Left off because they are the enemies of the poor, says **Deepak Lal**

It is an enduring feature of the Soft Left that it is always willing to assuage its bleeding heart by throwing other people's money at what it perceives are the world's woes. In India many of the foolish actions the current coalition government has undertaken, or is proposing, form part of this pattern. In the UK, New Labour has opened the public purse to throw money at unreformed nationalised health and education services, which has predictably been largely wasted. Now the world's bleeding hearts are proposing a massive increase in foreign aid to "solve" Africa's enduring poverty. In all these cases the basic flaw in the proposals is that they fail to take account of the nature of the instruments that are to be used to promote their cherished panaceas. They all require politicised and bureaucratic methods of delivery, where given the predatory nature of most polities and their bureaucracies, these very methods are part of the problem rather than the solution. Or else though aimed at helping some perceived disadvantaged group the remedies proposed will only make things worse. The basic purpose of all these measures is to extend the reach of the state. But as this column has constantly argued, the state and its agents—no matter how much actions are cloaked in the rhetoric of the public good—are by and large in most countries predatory, and no less so than in India despite the "dream team" of reformers purportedly at its helm. In this column I will examine some of the recent proposals by these bleeding hearts in the hope that an informed citizenry can see through the rhetoric pulling at their heart strings to take money from their purses to enlarge those of the state and its functionaries.

Take, for example, the proposed Act going through Parliament to provide labour in the unorganised sector "rights" similar to those enjoyed by workers in the organised sector. As many previous columns have noted the greatest damage to the interests of India's labouring millions has been done by the colonial labour laws, which provide "rights" for labour in the organised sector. These have been the equivalent of a tax on the use of labour in the large-scale industrial sector. This has led to the growing capital intensity of Indian industry in a country awash with labour. The jobless growth in the industrial sector since liberalisation is the result of the failure by successive governments to rescind these colonial labour laws. The reasons are well-known. Each major political party has its own client trade unions which prevent this necessary reform to protect the incomes and perquisites of their members. This labour aristocracy of course receives its "rents" at the expense of those millions unable to enter this aristocracy because the "tax" on labour they impose reduces its demand.

But now the coalition government led by the Congress is proposing to artificially raise the price of labour in the unorganised sector. As any housewife knows, if you raise the price of anything, demand for it falls. This is exactly the predictable outcome of the proposed bill to "protect" labour in the unorganised sector. The hope of labour-intensive industrialisation in India, which as China has shown can lead to spectacular gains in the employment and incomes of the labouring poor, will thereafter be permanently dashed. Those "intellectuals" of the Soft Left in India who have pushed this measure in the name of the poor should hang their heads in shame. This is the surest means of damaging the interests of the poor by both reducing the overall demand for their labour whilst at the same time feathering the nests of the myriad intermediaries (both private and public) who will be inducted to administer, or to capture the rents from these new laws.

Or take the increased social expenditures which the coalition government has committed itself to, and which the finance minister has in his Budget partly delivered at the cost of a standstill in meeting the targets of the bill imposing fiscal responsibility. Lip service is paid to looking at the outcomes of these increased social expenditures on health, education, and employment guarantees. But, as innumerable studies have shown, public provisions of health and education have failed massively, so much so that even the poorest of the poor are relying on private providers for these basic services. The leakage from public employment and poverty programmes is known to be massive: as Rajiv Gandhi attested, only 25 per cent of these transfers reach their intended beneficiaries. Moreover, as a large number of studies in many developing countries have shown, public transfers to alleviate "poverty" most often crowd out private transfers—which are large in the developing world. There are well-known alternatives. For health and education, it is to publicly finance these for the poor but to allow them to choose private providers through some form of voucher scheme, probably best administered through the panchayats. Whilst for poverty alleviation, India's own recent experience and that of China show that rapid labour-intensive growth is the only sustainable route. This increased social expenditure will only crowd out the investment needed to finance the infrastructure India desperately needs to accelerate growth and alleviate poverty. Or take the showering of largesse on the unreformed National Health Service by New Labour in the UK. The predictable outcome of failing to privatise one of the largest remaining nationalised industries in the world is that much of the extra money has gone on administrators rather than doctors and nurses, so that the NHS provides one of the worst standards of health care for one of the most advanced countries in the world.

Finally, take the recent outburst of calls for action from the world's great and the good to save Africa: the UN's new millennium agenda fathered by economist turned saint cum pop star Jeffrey Sachs, the recent Africa Commission report fathered by Tony Blair. Their purpose is to argue for massive increases in foreign aid to Africa. But if foreign aid was the answer to Africa's problems it should now be rich. Measured in today's dollars Africa has received $2.3 trillion over the last 50 years. Yet it has stagnated. The reasons for the failure are evident and increasingly acknowledged even by many bleeding hearts. It is politely called the problem of governance, which in ordinary language means much of Africa has been ruled by predatory elites who have been more interested in feathering their own nest than in the public weal. Compared with most Asian countries Africa was not poor, as it has immense natural resources. But they have been systematically looted by their predatory elites, who have also ruined hitherto thriving economies. Robert Mugabe in Zimbabwe is the most recent in a long line of tropical gangsters. Why does anyone believe that throwing foreign aid money at him and his ilk will help the African poor? If the bleeding hearts were serious about the plight of the poor of Africa they would have to contemplate some form of direct or indirect imperialism to provide the good governance they all admit Africans need. But how many of them are willing to contemplate that?

The Soft Left has always claimed the moral high ground and tugged at our heartstrings by claiming to speak in the name of the poor and the oppressed. But this is mere rhetoric and as innumerable examples show, not least the recent policies espoused in the Common Minimum Programme in India, in the policies they advocate they are the enemies of the poor. Alleviating poverty has become a worldwide business from which these Lords of Poverty derive a profitable living. In the interests of the world's poor, it is time we said "Boo" to them and pensioned them off.

Illustration: BINAY SINHA

'India Shining' Mark II

Subir Roy

VALUE FOR MONEY

Last year's election results, which dethroned the NDA government and eventually installed the UPA, were greeted with a stock market crash. Most of Indian business opinion, which had bought the "India Shining" story of the BJP-led NDA, was deeply sceptical about the ability of a coalition, formed with the support of the leftists and Lalu Prasad, to deliver stable and effective governance.

Today, as we approach the one-year milestone of UPA rule, the stock market is booming and it is difficult to find a sliver of business opinion which does not agree that the UPA government has performed way beyond initial expectations. Opinion, not just within India but around the globe, is that those leading India seem fully capable of carrying the baton in the initial lap of the long race that is likely to place the country alongside the US and China as a global economic power long before the present century is out.

Why this perception change in just one year? Why did business opinion get it wrong initially? Or, is the current sentiment erring again by being overoptimistic? Most importantly, what will it take to deliver on the promise of becoming a global economy—both in size and competitiveness?

First, the short-term political arithmetic. The leftist bark is clearly worse than its bite. China leads in attracting foreign direct investment, the CPI-M-led government in West Bengal loves it but the left leaders ensconced in Delhi have qualms about loss of sovereignty! The ridiculousness of this cannot be lost on these leaders and they are unlikely to rock the boat on issues like these.

As for Lalu Prasad, the damage that political association with him can cause has been contained, most recently by the government distancing itself from the attack on the Election Commission. Most significantly, the Sangh Parivar has made things easier for the government by discrediting the leader of its own political offspring. Even Pakistani agents cannot do greater damage to the political future of Hindutva than will be done if Narendra Modi or Uma Bharti comes to replace L K Advani as the head of the BJP.

The opposition has allowed the government such a cake walk that India is shining despite the government scoring near zero in its first year in creating politically and socially even a marginally better India. The biggest inaction on the political front is the inability to take an initiative on electoral reform. It is axiomatic that India cannot be governed better unless it gets a better breed of politicians. That cannot happen unless the role of unaccounted money in elections is reduced. The outgoing chief election commissioner has said that the Prime Minister has promised to call an all-party meeting soon on his reform proposals. These were made months ago!

As for social transformation, UPA rule will be a waste if it does not even marginally strengthen the foundations for a secular India. NDA rule was not taking India down the road to economic ruin, but it was shaking the foundations of an inclusive Indian civilisation. Communal parties come to power because ordinary Indians who do not riot or loot at the drop of a stone see little difference between them and the so-called secular parties. The charge of being pseudo-secular is hard to avoid for those who play up to the communally-minded elements among the minorities. Secular forces gain when religion matters less and less in public life and this happens when the minorities become more and more a part of the mainstream. Only a small beginning has been made towards this (removing inter-community differences) by the Muslim Personal Law Board approving stricter rules for divorce. This may not change ground realities right away but it is a beginning.

Despite lack of political and social progress, business opinion is positive towards the UPA because it feels it is good for business. Macro indicators all look bright—high growth in a year of indifferent monsoon, revived industrial growth, inflation under control despite historically high oil prices, extensive new investment and exceptional corporate results. To enable this the government has taken several fundamentally significant decisions—lowered tariffs, introduced VAT, continued to invest in roads, eased in more FDI and marginally reduced reservation for small scale. Both FDI and fiscal correction would have done better were it not for the left. It is safe to wager that UPA rule will be marked by stepped-up growth with inflation kept under control. Old fears of a boom leading to overstrained infrastructure and sharp change in monetary policy (as happened in 1996) have receded. Infrastructure is getting investment and monetary policy is now more deft.

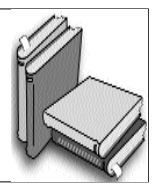
So why worry? A strong lobby argues: take care of growth and growth will take care of everything else. The contending lobby holds: irrespective of the reform record of a government, it cannot return to power unless ordinary people who are mostly poor feel they are better off. The whole common minimum programme is geared to take care of this. Significantly, going by newspaper studies, there is little impact of the programme on the poor yet. Hence the key agenda before the government is not just to ensure growth (that is necessary but not sufficient) but to innovate and push the state governments to deliver better. Otherwise, we may be in the midst of a second but equally ephemeral euphoria over "India Shining".

The cost of contentment

SAMUEL BRITTAN

Richard D North
Social Affairs Unit
Price: £20; Pages: 311

RICH IS BEAUTIFUL



Capitalism has usually had a bad press. Left and right have combined to denounce mass affluence and the Church has been hostile from the beginning. Even one of the quotations printed on the back cover of *Rich is Beautiful* says it is "the indefensible argued with vigour".

Business leaders have mostly been unsure of their own case and all too ready to take at face value the critiques of the anti-globalisers, the "stakeholders" and all the rest. One sees it, too, in tycoons on the boards of opera houses who are afraid to say "boo" to sub-Marxist producers for fear of being thought Philistine or rightwing or both. North talks about "cultural cringe". The defence has been left to a handful of economic intellectuals despised as having their heads in the clouds by "practical businessmen" and written off as soulless apologists by the typical arts page editor.

There is a further irony. Many of the defenders of capitalism have not been particularly enamoured of commercial culture or even very familiar with it—one of the most vigorous ministerial exponents of Thatcherite capitalism hated shopping. They have defended capitalism as the road to prosperity, the product of social evolution or as a necessary but not sufficient condition for personal freedom, which is where my own emphasis lies. The novelty of Richard North's book is that he embraces affluent mass society, knows what he is talking about and is highly entertaining to boot. The book has on its cover a photograph taken by the author entitled "Woman and Poodle at Motorway Services, France 2003". He celebrates the modern shopping mall and remarks that more people are better off and "working out how to respect each other" than at any time in history. He notes that "people do not seek happiness. If they have any sense... they seek drama, risks, inner peace, success, applause, wealth, power, goodness". To oppose this "seems curiously life-denying".

North knows the protest movement from the inside. His own gurus were not Friedman and Hayek but Teilhard de Chardin, the metaphysical biologist, and Ivan Illich, the radical deschooler. Although he no longer preaches their messages, he has retained some of their insights.

We are left with the question: why, if the modern world is so good, is there such tension and discontent in the air? North starts off his attempted explanation by ridiculing Tony Blair as the "first chav prime minister", who, in pursuit of perpetual youth, dresses on holiday like a working-class teenager. None of this would worry me in the least if Blair understood the rule of law, due process and civil liberties. North goes on to talk about the decline in respect for authority but then—perhaps realising that he is in danger of echoing the social conservatives whom he criticises earlier in the book - switches to the "suddenness of affluence".

My own attempt at explanation would focus on the omnipresence of management consultants and similar advisers. It is from such sources that governments absorb the swarm of targets that are undermining public services. Typical of such people is the renaming of the old-fashioned personnel manager as the "human resources director", who is even more inclined to seek solutions by sacking and short-term cost-cutting, not much redeemed by the semi-velvet glove.

One finds the evidence of these "consultants" everywhere. In the past few weeks I have suffered from hotel rooms with cardboard keys that fail to open the door and which also control the lighting inside the bedroom that is all too inclined to plunge into darkness. Their lunacies include the attempt to save a few farthings on extremely awkward thief-proof hangers. Earlier on they decreed that all walls must have flat surfaces, thus banishing useful coat hooks and condemning us to inadequate light from table lamps. And in department stores, certain sections are moved from one floor to another—then back to where they started.

It is the beauty of a market society that it leaves room for people who want to work shorter hours, or in more congenial conditions, in return for less take-home pay

North himself tends to waver between the belief that "the unfolding of challenges makes life worth living" and the more libertarian insight that we do not all have to compete frantically and can be lotus eaters if we choose. After all, most people can enjoy the peace and tranquillity of a country walk if they take a short bus or train ride.

It is the beauty of a market society that it leaves room for people who want to work shorter hours, or in more congenial conditions, in return for less take-home pay. The question is why so few executives and professionals take advantage of this or insist that their employers make them available.

Maybe there is an explanation in evolutionary biology for the phenomena of unnecessarily long working hours and hyperactivity which modern executives complain makes them feel "stressed out".

Just as their avian ancestors competed for the favour of females by otherwise unnecessary lavish feather displays, and their early human ancestors competed through hunting prowess or skills in warfare, their modern successors display their machismo by coming into the office at 7am to catch up with the Tokyo markets or by being the last to leave their desks in the evening.

Perhaps we can console ourselves with the thought that these are only tendencies and that as new generations come into affluence, more of them will insist on opting out. **(FT)**