

## Dealing with THE GLOBAL ECONOMIC CHALLENGE



*Crisis can be a time of opportunity. How can this crisis spur us to create economies and policies which enable the developing countries to thrive and the developed to become sustainable?*

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Yesterday Prince Hassan reminded us of Gandhi's seven deadly sins. Gandhi's solution was that nature has given us enough to meet every man's need but not every man's greed. The economic crisis we have is not an economist's crisis. The fundamental causes are moral. This causes the schizophrenic dichotomy of which Hameed Haroon spoke, and which is expressed in three fundamental asymmetries which we confront.

The first is that we do not live in a globalized world. Yes there is corporate globalization but it is not accompanying by political globalization or regulatory globalization. So greed is constantly privileged over need. The benefits of corporate globalization go to a few, a very few, be it in the developed countries or developing. The problems arise from exactly the same few. Ironically the solutions are sought from the same problem makers. Those who suffer the consequences of other people's decisions are excluded from the process of finding the answers. This doesn't merely apply to international relations in the sense of G8 comprising the richest countries and the most problematic countries in the world, also within the societies of developing countries, the voice of those who benefited most from globalization in the developing countries is heard much more at the tables of the rich than the voice of the poor, even from the microphones of their representatives at international fora.

The second asymmetry is that while domestic good governance in virtually everyone's view is based founded in democracy it is believed by the UN system, the Bretton Woods system and all wise men from Wall Street to Threadneedle Street that international governance should be based on a directoire that would put to shame

the directoire that came up after the French revolution. A tiny group of five nations which happened to have won a war which they could have prevented, sixty years ago, and which engulfed all of us in that war, has then excluded us from finding solutions after that. This tiny directoire determines what international collective security is about. When they find themselves thwarted they have no hesitation, if they are a really great power, of ignoring the advice even of that directoire and pushing ahead, the tinyer the country the bet. That is called shock and awe. I am in shock and awe at the inability to understand that the principles that apply to domestic good governance must apply to international good governance.. This is a good example of Gandhi's politics without principle.

In consequence we find what Sir Richard Jolly has drawn our attention to. The G192 which is where an international democracy ought to operate, is ignored.

The third asymmetry is that cyclical crises of the kind we face today impact most heavily on those who are better off. That is why when you want to find a solution to that crisis, mind-boggling sums of money are handed out to the problem maker in order to restore the problem maker to the position from which he will be well positioned to cause the problem once again. We have known about these business cycles for generations, for 250 years. Instead of regarding this as the key characteristic of a system gone completely wrong, we are told the answer lies in the market, so restore the market. But restore it without reference to morality. For if you did have morality you probably wouldn't have the boom because the regulator would step in. But if you have the boom you have the bust. And the bust is going to affect far

more people adversely than the boom benefitted those on the upward curve. The result is also that while we get very concerned at cyclical crises hitting the better off, attention is so little given to those who are in perennial crisis, the poor of the world. If it is possible to rescue Goldman Sachs or UBS, why is it not possible in normal times to rescue a lot of very poor people. It was decided by the UN General Assembly in 1958 that a mere 1% of GDP of the richer countries would be channelled into good economics in the poor countries. The USA never reached 0.5 percent. But when their richest, their best, their brightest, get into temporary difficulty which obliges them to reduce their beach parties from six to three, suddenly the money becomes available. It is available even in India. The minute the crisis comes to us, we suddenly become rich enough to find money from our budget. But when we are faced with the perennial problem it is very difficult to do.

As an Indian I represent the world's largest democracy and one of the world's most dynamic and continuous democracies that the developing world has known. As a former government minister I represent a Government that has given one of the most appalling levels of governance to the people of my country. How to reconcile this apparent contradiction? It seems to me that our poor levels of governance in India are connected directly with the persistence with the colonial system of delivering good governance to the people through alien and transient agents, the civil service. They are brought in to a district precisely because they don't belong to the society of that district and transferred within three years before they go native. This was the principle on which

the British delivered good governance to India during the period of colonialism. We have persisted with that system. The consequence is that whereas India is demonstrating one of the highest rates of growth in the world, even in this economic crisis nearly 900 million Indians are living on less than \$2 a day. We have the world's eighth largest number of millionaires and our single biggest billionaire is constructing a personal residence in Mumbai which has more floor space in its 36 floors than the whole of the palace of Versailles. What is praised in India is our remarkable rate of growth and the astonishing number of millionaires that we are producing instead of being condemned for the 900 million Indians living on less than \$2 a day. It is because democracy is equated with good governance, whereas good governance should be equated with self-governance. When communities are enabled to rule themselves, their responsibility is to their people. Whereas when civil servants come to deliver good governance their responsibility is upwards towards the ministers. Until we understand that the only form of good government is self-government and allow democracy to devolve to the lowest levels, and allow village communities, as Mahatma Gandhi said, to become in effect village republics, that we will get good governance – at least in our country and possibly the countries of the subcontinent. That is why I would urge that one message of this conference is that the only form of good governance is self-governance. An excellent example is this country, Switzerland, with its 24 systems of government.