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In a just world, passports and visas would be eliminated.

– Dr Tom G Palmer



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I think basketball is a good way to learn about people and it shares a common trait with business. A good pass is better than making an easy shot which all comes down to teamwork.

– Pasi Koistinen

'In a just world, passports and visas would be eliminated.'



**Dr Tom G Palmer**

vice president, International Programmes, Atlas Economic Research Foundation, and senior fellow, Cato Institute

**D**r Tom G Palmer, vice president, International Programmes, Atlas Economic Research Foundation, and senior fellow, Cato Institute, previously served as the vice president of International Programmes at the Cato Institute and as director of the Centre for Promotion of Human Rights. He is also the director of Cato University, the institute's educational arm. Dr Palmer has been active in the promotion of libertarian and classical liberal ideas and policies since the early 1970s. The author of *Realising Freedom: The Theory, History and Practice of Liberty*, Dr Palmer was in Nepal recently to share his views about liberty and economic freedom when the boat caught up with him to learn more about his views.

**How would you define the term 'liberty' to a common man? What does 'classical liberalism' actually mean?**

Liberty basically means being able to do what you want to within the context of the Rule of Law so that you are not subject to the arbitrary power of other people which is an important element that people tend to forget. To enjoy the fruits of liberty, the Rule of Law is a must. There must be equal laws and rights

for every human being and within those rights and laws, the freedom to live your life as you choose. The term 'classical' was added to liberalism primarily in the US because the word 'liberalism' came to have a somewhat different meaning in the US which is sometimes called 'social democracy' in other countries. In all the European countries and the rest of the world, the term 'liberty' has always meant what it is—Rule of Law, limited government, personal freedom, tolerance for every religion, caste and creed, and where the world is united in a peaceful way through the freedom of trade and travel.

**How important is economic freedom?**

It's really important. The Fraser Institute of Canada does a survey every year on economic freedom around the world and this survey includes a whole range of data and it shows quite conclusively that economic freedom is the most important thing for the well-being of the average person. Economic freedom is much more important than gold, oil or other natural resources. When talking about prosperity, many people still associate it with resources. People say that Saudi Arabia is rich because of its oil but it is actually not rich comparatively—it has a rather low per capita income as compared to many other countries that do not have any natural resources. What Saudi Arabia lacks and what those other countries possess is the Rule of Law. Hong Kong has little in the way of natural resources. It is basically a giant rock covered by Chinese people but they have a higher per capita income; the reason behind it is that they have good laws and economic freedom. It is not an accident that they top the world in the economic freedom index year after year, and that is the cause of the prosperity that people enjoy there. So if you think about what one can do for one's country to help one's fellow citizens—you could establish hospitals or charity, and those are valuable and useful for people—it would be wise if you could establish economic freedom. You would be doing more

to benefit the poor than all of the money that Bill Gates is putting into charity. The charities are valuable but not as nearly as economic freedom.

**What do you have to say about political freedom?**

Political freedom is valuable for some of the same reasons as economic freedom. It means that there is competition in the political system and is not a one-party monopoly, just as we want competition in the market economy where we want to decide what product we want to buy. And for the same reasons why monopolies are destructive in economies, they are also destructive in the political system. So pluralism is the best option which means democratic governance, which also means economic freedom. Those are two forms of pluralism – they both bring benefits to the average person.

**How would you exactly describe 'free market policy' to the common man?**

I believe that most people understand the concept of free markets when they buy and sell goods. If a person determines that a product is too expensive, she will not buy it or will offer a lower price. And the person who is selling it will like to get a higher price for the product but that does not necessarily mean that the customer will pay that amount. So there is an agreement on the price that is mutually beneficial to both parties. It will benefit both the buyer and seller whenever there is a voluntary exchange of that type. Most people understand that, but when it comes to 'economy' they think of it as something different, which is actually the aggregate of lots of such interactions among people. A free market policy means that the interactions are based on voluntary consent which is determined by a background of property. For example, if I decide to sell you a book and you buy it, then we both benefit. If we cannot achieve a price, then I get to keep my book, it is my property. So property is the secure foundation of a market economy and is also the freedom to negotiate for exchange. I think most people understand it intuitively, but they get confused when they think of the economy as something different.

**Is democracy really necessary for a vibrant economy? China, for example, is doing well with one-party rule. So how do you relate political freedom to economic freedom?**

There are several things to keep in mind. When China had a socialist form of economy, it was a catastrophe. It was really brutal for the Chinese people which Frank Dikotter has pointed out in his book *Man's Great Famine: The History of China's Most Devastating Catastrophe, During the Great*

*Leap Forward*, a good 45 million Chinese were killed by the policies of the Chinese government. It was a catastrophe on a scale unseen in the history of mankind. And it was because of the idea that the government should manage the economy and direct all of the economic behaviour. It was only after Deng Xiaoping began to allow that system to be dismantled that the Chinese began to prosper. It was when state control was loosened. It was a historical accident and the monopoly power realised its mistake and began to allow the economy to function freely. It began to allow people to engage in free trade and began recognising property.

This is more likely to happen in a democratic system where you have actual debate and discussions. Historical records show that political freedom and economic freedom tend to go together, but the relationship or cause between the two is quite complex. In reality, a democratic system tends to gravitate more towards economic freedom. There is discussion and pluralism and people demand to exchange according to their choices. But there are also instances of when regimes that began with authoritarian rule but began to get their economic policies right, have led to democratisation. The classic examples are South Korea and Taiwan. So the relationship between democracy and market economy is quite strong, but it is not a relationship of equivalence. You can have a democratic system without a very free market system and you can have a relatively free market system without a democratic system. Hong Kong is an example of the latter. By and large, there are very strong incentives and tendencies for both those two systems to be combined.

**What political path would you recommend for Nepal?**

I tend to be very careful when giving political advice to people. One of the reasons is that they have to live with the consequences and once I go to the airport and fly away, I don't. So given that caution, rather than talking about politics, I would prefer to talk about the constitution as an enduring document. Nepal is in a constitutional moment and the future course of its history, regardless of which political party is in power, will be determined by the debate on the constitution. I think it is very important that the political pluralism that was established after 1990, is strengthened and the constitution should lay the framework for normal democratic procedures which basically means freedom of speech and

freedom of expression so that people actually know what the popular will is. If there is no free press, then you don't really know what people are thinking.

In addition, I would also prefer a market economy with secured rights of property which is extremely important. Many people interpret this particular aspect as anti-state or anti-government or that there is no role for government which is an error. The government has an extremely important role to play in setting the framework for the economy. The definition and defence of property rights, and an efficient legal system to allow people to exchange for mutual benefit are vital. These are tremendously significant roles of the government. In fact, a free market economy requires an efficient government to define and defend property rights, to defend the country's independence from foreign conquest and so on. So a proper government for an independent and prosperous Nepal would be a strong government and at the same time, a limited government. I think it is very important to recognise that in the constitution. That would be a benefit for all of the political parties in Nepal and it would give them the opportunity to offer themselves to the people. In contrast, a completely state-dominated economy is more likely to lead to corruption, to the undermining of democracy and to a future of poverty.

**How limited should a government be?**

I think there are very clear limits on the proper power of the state and if you want a country that is categorised by personal freedom, democratic governance and by prosperity for the average person, then the state should not confiscate property arbitrarily. It should not discriminate amongst citizens on any ground and it should not interfere in setting prices. Moreover, the government has an important role in providing a sound monetary system because if the government is printing money to meet the expenses, it destroys the value of the people. It imposes the most unfair tax because the inflation tax harms the poorest and most vulnerable people in society. It also makes it difficult and in some cases impossible for people to engage in any long-term planning for enterprises and wealth creation. So the state should not inflate the currency, should not interfere with the negotiation of prices, and should not confiscate the property of anybody arbitrarily. I think there should be bright defining lines over which the state should not step. Now the question is how

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big the government should be, it depends on the needs of the people. Should the army be larger or smaller, should they be more or lesser police forces—that should be determined by the political parties. But the key thing is not the size of the state per se, but the powers that state officials can exercise which must be clearly defined. There should be a definition that authorises them to do what is appropriate and a limit that curtails them from doing what is inappropriate.



**What form of tax regime should a country like Nepal have?**

I think it should be based on the same principles as pricing. Do you prefer to pay more or less for your clothing? Most people would say less. We should try to get the best prices, which mean that lower prices are better overall. But in the tax case, there is an additional argument for lower prices if we can get that. Quite often a lower tax rate will generate higher revenues. Russia showed this very convincingly when they went from a complex system of taxation which was very high and at times confiscatory, to a simple, flat tax system which everyone understood and which was dramatically lower. At that time, there were some who predicted that the state wouldn't get much in tax revenues with such low tax rates. But tax revenues rose tremendously because people knew that the tax was fair and not crippling, and the shadow economy moved out of the shadows and into the light. This was a very important element. Confiscatory or unpredictable tax behaviour drives economies into the shadow. And this is harmful for everybody because it

means a lack of legal responsibility and accountability, and it also means that the tax revenue of the government is very low. It's much better to have a low, flat, fair and simple tax system.

**An economic path that you would propose for Nepal...**

The primary focus right now is on the constitution and I think it is very important for people to make the case that property is an important element in any economic system that aspires to prosperity. And politically, whether you call yourself a capitalist or a socialist or a communist, it does not matter—economic reality cannot be ignored. China has recognised this and property is protected and enterprises are respected in Chinese law, and business people too are respected in China. This is the reason why China went from desperate starvation and poverty to being an advanced country. Certainly, those regions of China that have the most respect for property are the regions that you see most of the wealth in. The difference among the economic policies of the provinces in China is greater than the difference among many nations in the world. Western China and most of rural China has not enjoyed the security of property in the market economy which is enjoyed in the coast and the southern regions. Unsurprisingly, it is the regions with the security and more economic freedom that have prospered in China. This is the lesson for the world.

**In a country like Nepal with a substantially wide gap between the haves and have-nots, how does free market policies present equal opportunities? Somebody with more money and better education could have a head start.**

Of course, there is no doubt that with a better education or inheritance, you could have a better head start. That is part of reality and undeniable. The question is how permanent is that head start. We have seen countries which started with a very low base outstrip those that were richer in the beginning. South Korea, Hong Kong, Taiwan and Singapore are good examples. Countries can become very rich, very fast in the modern world because they can leapfrog over other countries that took years to develop technology and infrastructure. This is also true within a country that is developing in a market economy. You will find in most countries that have moved towards the market economy that the greatest fortunes are being made not

by those who were born into privilege but by people who had a good idea and worked hard with the knowledge that it would not be confiscated. What needs to be avoided in Nepal and elsewhere is so-called crony capitalism in which family members of government officials do all the inside deals. That's not capitalism—it is grotesque and should be resisted. But the best way to resist crony capitalism is not totalitarianism but free markets. Free markets will erode the privileges of the haves. As a matter of fact, we tend to find less income inequality in countries that have adopted the free market mechanism than in countries whose economies are rigidly state controlled.

**There are many think tanks and people talking about free trade and free movement of goods, but we seldom hear people talking about free movement of labour. What is your take on this?**

I am a person who is a very passionate believer in the free movement of labour. I think the right to travel should be recognised as a fundamental human right like the right to speech, the right to freedom of worship and the right to own, acquire and dispose of property—all of which are derivatives from our right to our own lives. The introduction in the early years of the 20th century of passports and visas was in my opinion one of the greatest crimes of socialism and statism. Prior to that, for thousands of years most people could go where they wanted to. You did not need a passport to go from one town or village to another. The idea of passports was absurd and crazy. But now we have become brainwashed by statism into thinking that passports give you the freedom to travel—this is what all governments tell us. In fact, a passport is a restriction on my freedom to travel by requiring me to have a state-issued document to travel. I believe that in a just world, passports and visas would be eliminated. Now the question of why the freedom to travel has been restricted has partly to do with collective ideas of nationalism that emerged and became powerful towards the beginning of the 20th century—the idea that this territory is for our nation only began to gain strength. The consequences of that was mass slaughter in an unprecedented scale. Since then, the modern welfare state and the power of trade unions have also worked very powerfully to limit the freedom of movement because people who have privileged positions in the workforce don't like others coming and impeding in that. And that is I think the political explanation as to why it is so difficult to promote freedom of movement. Liberalism means freedom of trade and speech and also freedom to travel.