

CHERRY PICKING IN BHUTAN

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Introduction

It is a great honour to be invited to Bhutan to address this conference. In writing this discussion paper, three considerations were uppermost in my mind. I wanted to express my admiration for the work already being undertaken by the Bhutanese Government under His Majesty the King, Jigme Singye Wangchuck. The concept of Gross National Happiness (GNH) represents an original and highly significant initiative and the Government has been diligent in finding ways to apply this policy as broadly and honestly as possible.¹ Secondly, I wanted to express my appreciation of the work of others. Those papers and extracts I have had the opportunity to read show a deep appreciation of the issues involved, not least the acute dangers to developing nations presented by the modern global economy.² With this in mind, my third consideration was that I wanted to make an original contribution - not duplicate the work already done by others nor simply echo other delegates. This paper is offered in the hope that it will integrate with this earlier work.

It is important to state at the outset what is omitted from this paper. What I do not discuss in depth is the debate over the nature of happiness itself, and the extent to which this derives from material/social/external considerations and from inner, spiritual ones. This has been well covered by

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¹Dasho Meghraj Gurung, Address to Gross National Happiness Seminar, Netherlands, 2001.

² Sander G Tideman, Gross National Happiness: The Meeting of Buddhism and Economics, Briefing Paper for GNH Dialogue, Netherlands, 2001.

those more qualified than myself.³ Material well-being clearly contributes to happiness, yet we are all aware that a state of happiness lies much deeper. Paradoxically, happiness actually lies deeper than many of the important social and non-material considerations that are excluded by conventional economics and embraced by GNH. Ultimately, happiness is a matter of perception; a state of mind; a fact that is fully acknowledged by Buddhism and other world faiths.

What this paper focuses on is the way that orthodox economic policies can erode and destroy the happiness of a society and its people. It also outlines a range of economic policies and ethics that have the potential to provide a structure within which GNH might be more effectively created. This is by avoiding some of the mistakes of orthodoxy, and considering alternative 'New Economic' policies that provide room for the many subtle elements that contribute to GNH to emerge.

The aim is to try to add to the debate in the following ways:

- 1) Draw attention to important economic considerations omitted from orthodox economics, which are embraced by the concept of Gross National Happiness
- 2) Highlight the flaws in conventional economic policies and institutions that can erode Gross National Happiness and disadvantage developing or smaller nations, such as Bhutan
- 3) Emphasise the dangers faced by small nations such as Bhutan in their engagement in the global economy
- 4) Outline the wide range of economic policies that might ameliorate the impact of the global economy and

³ Chris Enthoven (ed) *Gross National Happiness, Gross National Product - A meeting between two cultures*, Ecooperation, 2001.

promote a more benign, sustainable form of economic activity

- 5) Discuss the potential application and relevance of these policies to key economic and social sectors in Bhutan

Bhutan is not alone in facing the challenge of development in the 21st century and the opportunity exists to draw as widely as possible on the experience of other countries in informing this discussion.

1) Economic Considerations Omitted by Orthodox Economics, which are Embraced by the Concept of Gross National Happiness.

Although this area has been discussed in other papers, it is worth summarising some of the points already made, hopefully adding to the analysis.

Gross National Happiness is a magnificent ethic. The substitution of a single word, 'happiness' for the word 'product' injects humanity, in all its rich complexity, into economics. Many tenets of economic orthodoxy are challenged, most obviously the assumption that increasing material wealth automatically equates with increasing levels of human happiness. It has been broadly conceded by writers in the GNH forum that material wealth *can* contribute to human happiness, but that this is only one element in a complex array of considerations. Perhaps the most succinct statement of this is that humans are not wealth 'maximisers', but 'satisfiers'⁴. The majority of people pursue material goals only to a certain level: either to a level where non-material considerations become more important (such as leisure or family concerns), or to a level that provides them with a sense of security - a perception that is at least in part non-material.

⁴ Stanislav Menchikov, quoted in *Enterprise and Development in the 21st Century: Compassion or Competition?* Sander Tideman (ed), Asoka, 2000.

The contention that human desire for material wealth can be satisfied in turn casts doubt on the deeply traditional premise that economics is a study of 'the allocation of scarce resources' - essentially a study of conflict. The falsehood of this premise is also attested by the observation that our access to material wealth is not limited by the finite nature of the world, but rather by our ability to create and willingness to distribute that material wealth.⁵

As well as challenging orthodox assumptions, the concept of GNH allows and obliges us to include many considerations omitted from orthodox economics. The satisfaction (or lack of it) from work has no relevance in orthodox economics - labour is seen merely as a factor of production and is thereby utterly dehumanised. Similarly, the impact of economic development on families and community structure, the health of the environment, the depletion of natural resources and the prospects for future generations; all these considerations, which are of the first importance in GNH, only figure in orthodox economics to the extent that they can be demonstrated to impact on the production of material wealth. The 'voluntary economy' that revolves around family/community/social ties, and which can be affected so disastrously by conventional economic policies, is completely omitted from GDP. Yet, as has been indicated by many studies, this voluntary economy actually contributes some 50% of the true economy of a nation. GDP as a concept, focusing on monetised exchanges, is therefore a deeply flawed measure of the true material wealth of a nation.

GDP also assumes all monetary transactions are inherently desirable, and so includes many aspects of the 'negative economy' as positive outcomes. For instance, the restoration of environmental damage, anti-pollution systems, excessive transport, growing demands on the legal system, measures to combat rising crime and deteriorating health, drugs programmes - all these register as increases in GDP. The New

⁵ Sander G Tideman, Op Cit.

Economics movement has for many years been developing GPI (Genuine Progress Indicators) that attempt to embrace the glaring omissions and contradictions of GDP.⁶

It might be argued that the wealthy nations do not, in fact, pursue GDP growth blindly, but entertain other policy considerations alongside this goal. However, these policies are generally an afterthought and fail to acknowledge that the problems they attempt to address are frequently caused by the relentless pursuit of economic growth. By contrast, the policy of GNH deliberately places non-material outcomes at the forefront; it widens the debate to include everything of relevance to humanity - dramatically broadening the scope of our economic and political concern. This also complicates a government's decision-making, since it is not just immediate and obvious outcomes, but knock-on effects of policies that are relevant.

2) Flaws in Conventional Economic Policies and Institutions that can Erode Gross National Happiness and Disadvantage Developing and Smaller Nations, such as Bhutan

Although much has already been said in criticism of orthodox economic priorities, again it is worth adding to this critique. It is important to have as complete an analysis as possible in understanding the defects of the economic system prevailing nationally and internationally.

The above section notes the extent to which the register of GDP is a redundant and flawed measure of progress. However, the pursuit of GDP is but one of a host of assumptions, ethics, policies and institutions that characterise and drive forward the modern economy. To provide an exhaustive discussion of these is beyond the scope

⁶ Cobb, Goodman, Wackernagel, *Redefining Progress; Genuine Progress Indicators*, Oakland (California), 1999.

of this paper and many have already informed the debate over GNH. However, the following are, I believe, key issues.

Debt-Based Financial System

One of the greatest institutional failings shared by the majority of national economies is the monetary, or financial system upon which they rely. My first book, *The Grip of Death*, is subtitled *A Study of Modern Money, Debt Slavery and Destructive Economics*.⁷ It discusses how an out-dated financial system, based almost exclusively upon fractional reserve banking, still dominates modern economies. This 'debt-based financial system' renders economies permanently unstable and creates a pressure towards constant growth, regardless of need or the desires of the population. A debt-based financial system is characterised by deteriorating personal solvency and the acute financial exposure of both commerce and government. This general lack of liquidity leads directly to the predominance of low-cost, mass-produced goods and services, and thereby to the over-centralisation of production, distribution and retailing. The pressure to find and provide new employment in an economy where labour is constantly displaced by technology results in a ceaseless stream of new products and services, which people are encouraged to purchase through an entire industry devoted to mass-persuasion and the manipulation of desires. In the over-centralised, debt-ridden, 'rich-but-poor' wealthy nations, public services, commerce and agriculture have all been deeply affected, transport systems are grossly overloaded and even residential and commercial patterns of development now reflect the failings of the inadequate financial system upon which the entire economy is based.

The debt-based financial system also has far-reaching effects internationally. Due in part to the tendency towards overproduction and in part to the lack of liquidity, there is a pressure on nations to seek overseas markets for goods that

⁷ Michael Rowbotham, *The Grip of Death; A Study of Modern Money, Debt Slavery and Destructive Economics*, Jon Carpenter, 1998.

cannot be sold domestically. This pressure to export is intensified by the influx of foreign goods from other economies similarly seeking adequate markets for their unsold goods. Trade, which ought to involve a balanced and fair exchange of goods to the mutual advantage of all nations, is now little more than thinly disguised economic warfare.

The extension of fractional reserve banking/debt-finance into the field of development has created the single greatest disaster of the last century - the institution of International, or 'Third World' Debt. The prime lending and advisory institutions, the IMF and World Bank, have presided over the slow-motion destruction of countless countries under the banner of 'progress'.

Sub-Saharan Africa's development, like that of so much of the Third World, has been a horrifying tragedy in which 'progress' has been accompanied and countered by the most appalling suffering, starvation and wretchedness. Millions now find themselves marginalised within their own society, existing in the midst of an economic degradation so profound that it not only fails to provide them with food, water and shelter, but has destroyed their culture, their past, their future and all hope.⁸

The historical record of the IMF and World Bank, documented in literally thousands of books protesting at their false economic priorities and failed policies, stands as an enduring testament to the wholesale failure of neo-classical economic wisdom to address the sensitive issues of development. Meanwhile, the failure of Western nations to cope with their own development, by maturing into stable, contented societies, underlines the inadequacies of their own economic

⁸ Michael Rowbotham, *Goodbye America! Globalisation, Debt and the Dollar Empire*. Jon Carpenter, 2000.

institutions, priorities and policies. The debt-based financial system is by no means the only factor contributing to this failure, but it is certainly a major component.

Wealth, Poverty and the Free Market

In the West, it is accepted almost without question that the activities of the business or 'entrepreneurial' sector within an economy lead to the creation of wealth, and that this in turn leads to a general increase in the material wealth of the society as a whole. This assumption has been challenged on two fronts.

First, as David Korten discusses in his book *When Corporations rule the World*, much activity by the business sector is not, in fact, creative of wealth, and may even be destructive of wealth.⁹ The absolute priority of the business sector is to make a monetary profit. This may involve wealth creation, but much activity by the business sector actually involves the *abstraction* or *appropriation* of material wealth that has already *been* created, the pursuit of market share and the elimination of rival commerce. If one firm takes over another firm and shows an increased profit, this is deemed a business success and automatically 'good for the country'. The business venture may indeed be a success for those directly involved. But this may involve thousands of workers losing their employment, the closing down of factories and retail outlets, a decrease in the range and quality of products available, workers being obliged to travel further to new employment and consumer dissatisfaction. This example is not intended as an argument against free enterprise or capitalism, simply an observation that business success does not automatically equate with wealth creation. Business success is just that - business success.

Second, the success of a business, whether it involves the creation of wealth or not, does not automatically lead to the

⁹ David Korten, *When Corporations Rule the World*, Earthscan, 1995.

increased *distribution* of wealth. The 'trickle down theory' - the assertion that wealth generated by the business/entrepreneurial sector percolates throughout the economy - is one of the ethics dearest to orthodox economics. This belief, born of faith in a mythical 'perfect market', is far from proven. The growth of poverty in wealthy nations such as the USA and UK coupled with a markedly increased 'gini coefficient' (measuring the disparity between wealthy and poor sectors) strongly suggest that confidence in the 'trickle down theory' is wildly misplaced. Since Adam Smith, economists have warned that 'unequal exchange' may lead to the progressive aggregation of wealth and impoverishment of the poor. This remains true despite the fact that there appears to be an increased flow of material goods to citizens as consumers; the spiralling levels of personal debt in the West underline the fact that access to this 'created wealth' is problematic, to say the least.

The above points are not intended to argue against free markets, nor denigrate the entrepreneurial sector. They warn of the need for fairer and more effective regulation in business, proper employment rights and policies that ensure the distribution of wealth is more just.

Inefficient Allocation of Resources

Another axiom of conventional economics is that a free market will lead to the most efficient use, or 'allocation' of resources. Those businesses that survive and succeed in the market achieve this success because they utilise the available resources most effectively, producing and selling goods at the most competitive price, whilst other less efficient firms do not survive. Over time, the available resources will be used most effectively by the most efficient firms.

According to this rationale, consumers in the developed nations 'want' their products to be increasingly unreliable, with an ever-shorter lifespan; they 'want' to have to make and buy those throw-away products repeatedly; they 'want' to eat food that is increasingly tasteless and lacking in nutritional

content; they 'want' to be barraged by imagery that undermines their self-esteem if they do not conform to advertising stereotypes; they 'want' to work in an economy that is destroying the planet on which they depend.

Perhaps the most glaring example of the 'misallocation', or inefficient use of resources involves the trend towards the globalisation of food production. Land within the poorer, developing nations that is desperately needed to grow food for their own population is utilised to grow crops for export. The foodstuffs produced are then transported by sea and air to Europe, North America and other wealthy nations. Meanwhile, farmers in these more advanced economies, who are often perfectly capable of producing the crops being imported, are driven out of business. Three ecosystems suffer. Farming in the UK struggles to survive and land usage declines; prime agricultural land in impoverished nations is diverted towards export crops instead of feeding the indigenous peoples; meanwhile the global ecosystem suffers from the excessive transport of goods.

Orthodox economics argues either that this *is* the most efficient allocation of resources (the free market cannot be wrong) or that a more efficient allocation of resources *will* come about through the 'doctrine of convergence' - the wealthy farmers in the UK will have to compete their way back into the market by lowering their income expectations, whilst the success of farming in the developing nations will raise incomes there. Thus, the grotesque misuse of land we now see is perceived as a stepping-stone along the road to greater global equality. All the evidence of the past century is that this 'doctrine of convergence' is another totally redundant economic ethic, rendered meaningless by the existence of global food monopolies and the overhang of crippling debt that obliges developing nations to feed the world rather than their own peoples, acting as the cheap manufacturing and agricultural outposts for powerful western corporations.

This 'development debacle' does far more than warn of the dangers of focusing on export products in a glutted world market. It emphasises yet again that commercial success is not an automatic good, and certainly does not imply the most efficient use of resources. This warning applies within nations as well as between nations. Long before globalisation of food reached its current level, UK farming was suffering a damaging trend in which the most effective and genuinely productive farms - medium sized, mixed farms - were being driven out by ever-larger, more wasteful but more cost-effective agricultural businesses, operating in alliance with giant supermarket chains.

Trade is Not an Automatic 'Good'

Trade between nations is, rather like GDP, taken by orthodox economics to be an incontrovertible indicator of progress. Trade is 'good'. That this is not the case takes only a moments application of common sense. If trade were an automatic sign of progress, Bhutan could produce everything needed by Nepal, and Nepal could produce everything needed by Bhutan; the goods could be exchanged and everyone would be better off - except of course, they wouldn't be. Trade involves transport and transport involves a substantial cost. Once the gross inequities of the international markets are appreciated, the glaring cost associated with modern trade becomes apparent. Near-identical products criss-cross the planet, goods that could be produced locally or regionally are manufactured in remote countries and exported globally, patterns of production and supply are forever changing, involving constant and repeated re-investment - the waste is simply incalculable. The proper purpose and value of trade is well understood and reasonably obvious, but to confuse today's burgeoning exchanges with progress is quite wrong. This excessive and ever-changing trade is, as discussed in a later section, a product of the volatile global markets created by the international debt crisis and the wholly inadequate trading architecture devised at Bretton Woods and since.

3) Dangers Faced by Small Nations such as Bhutan in their Engagement in the Global Economy

It might seem, with all the effort being put into the policy of GNH, that there is little likelihood of Bhutan being drawn down the road of 'Western style development'. With all their glaring defects, the wealthy nations are clearly not a model, either in terms of their material possessions, their social priorities or their rampant pace of change. Surely, the culture of Bhutan is too proudly revered and GNH is too robust a policy?

However, the danger is very real of Bhutan being drawn either towards excessive materialism of the West, or the poverty of other developing nations, or indeed a blend of both. The global economy is a highly aggressive environment and the pressure of external debt has obliged the majority of developing nations gradually to divert economic effort and resources away from their own citizens' real needs. As the unrepayable debts mount, these countries are forced to accede to deregulatory policies that progressively expose their economies to global commerce, with disastrous results.

There is yet another danger. The perception of affluence within the wealthy nations can have a profound influence on the citizens of poorer nations, generating a growing dissatisfaction and ultimately a rejection of their own culture, which is substituted by a craving for Western material wealth and the image of happiness it conveys. The loss of traditions and erosion of cultural identity can, like the breakdown of family and community structures, happen rapidly and irreversibly.

But perhaps the greatest threat is an insidious one, coming from the aggregate impact of the material wealth of the global economy in which technological progress and materialism is so prevalent.

There is a tendency to suggest that technology and material goods are, in themselves, 'neutral'; it is the use to which they are put that is of importance. In fact, nothing in life is truly neutral - neutrality is an abstract, essentially scientific and mathematical concept. Material goods have existence. If a country suddenly invents a technology or imports a type of product it did not have before, that country is altered. If a country imports a technology or improves an item it already had, it is changed. This can be as simple as knives and forks or clothing, or as complex as cars, tractors, mobile phones and televisions. The culture is changed.

Technology and material goods are not neutral; their existence changes patterns of life. And this is the problem. We are not discussing a single product - such as mobile phones - but a vast range of material goods that, in aggregate, represent a wholly different way of life. All these are waiting beyond the borders of Bhutan - motorbikes, microwaves, crockery, computer games, stainless steel kitchen equipment. If these are imported en masse, where then is traditional kitchen? Where then is the traditional way of making Bhutanese plates? If tractors and chemical fertilisers become widespread, where then is traditional agriculture, its field size, structure of the landscape, land tenure and the communities they supported?

Neither are we simply considering a threat from material consumption, but methods also. When an item is produced in a different way, there is an effect on working patterns. When goods are imported, a domestic industry often dies. Viewing technology and material goods as 'neutral' is a Western perspective with limited views, ignoring the socio-cultural impact of the product, how it is produced and what it replaces. Instead, we should always be asking, "What is the effect of this change or that change?"

In essence, if you really want to keep Bhutan as it is, you must change nothing. Just put up the barriers and refuse all change. This, I am anticipating, is not an option. Cultures

naturally evolve and change, albeit far more slowly than under the economic pressures recently experienced in the West. Normally, they change from within or in response to gradual influence and changes elsewhere. Bhutan's isolation, which has served it so well, means the country is now faced with a flood of advance representing changes that Western citizens found difficulty in adjusting to over a far longer period.

This leaves Bhutan's leaders with the vital but immensely complex task of monitoring and regulating the nature and pace of change - a momentously challenging responsibility. However, Bhutan should realise that it is not by any means alone. Although it may seem as if the entire world has either adopted western consumer culture or is in avid pursuit of that culture, this is actually part of the myth of western consumerism. The vast majority of the world's population actually live in communities, regions and nations that value their own culture, prize their independence and are seeking to find ways, like Bhutan, of preserving their inheritance and identity.

4) Economic Policies that Might Ameliorate the Impact of the Global Economy and Promote a More Benign, Sustainable Form of Economic Activity

It is one of the great intellectual failings of recent years that political and economic debate has been reduced to a simplistic contest between socialism and capitalism. The only alternative to the deregulated free enterprise and market capitalism that now prevails is portrayed as state socialism or communism, in which powerless and property-less citizens are directed by an omnipotent government dictatorship. To contend that these caricatures comprise the only possible political/economic options is absurd. Lip service is sometimes paid to the notion of a mixed economy, involving a blend of welfare provision and free market capitalism, but the 'mix' is far from certain. With the collapse of communism, neo-liberal capitalism is clearly the ascendant ethic, indeed The UK

Chancellor, Gordon Brown has declared that “...there is no alternative”. But of course, there is. Indeed, there are countless alternatives.

Just how lacking is the theoretical debate can be seen even in the GNH forum, for example, in discussions over the role of competition and the hypothetical free market. It has been asserted in several past GNH papers that competition is an inevitable and at times positive element in economic activity. This may be true, but the nature of competition can be dramatically affected and outcomes altered by economic policies. For instance, the level of competition for land in an economy where very large land holdings are permitted and are customary will be very different from the competition for land in an economy where a size-limit on land holdings exists, permitting more farmers to enter the market whilst restricting the power of established farmers to monopolise land and food production. As another example, the degree of commercial competition for sales in an economy where adequate purchasing power is distributed amongst the majority of consumers will be very different from that in an economy where a significant number of consumers lack adequate purchasing power. To discuss the notion of ‘competition’ but ignore the factors that affect the nature of competition is a virtually meaningless exercise.

It may well be that the most optimistic future for economics lies in dispensing with intellectual slavery to any one ‘ism’, whether it be capitalism, socialism, environmentalism or New Economic-ism. If that is the case, it leaves politicians free to exercise their judgment and consider likely outcomes rather than fond hopes and misplaced faith. In this, the concept of GNH would seem to represent an ideal that is far superior to any intellectual system or single programme. A government that embraces GNH is free to adopt and adapt policies at will from a multitude of sources, old and new.

This brings us to the opposite of the statement made by Larry Summers formerly of the World Bank, who once infamously

stated to the Indian Government, "... governments need to understand that there is no longer such a thing as a separate and distinct Indian economics - there is only economics".¹⁰ There is, or should be, an economics that is distinctive for each and every country. This conference represents part of the search for a specifically Bhutanese economics in which the priorities, culture, specific problems and opportunities of this country are given primacy. Countries have the right to cherry-pick amongst the vast array of contending and available policies and make their own decisions.

The following section discusses a wide range of topics and policies. Some of these reflect the range of analysis, practical policies and ethics that derive from the New Economics movement. In other cases, key sectors of the economy are discussed in terms that emphasise their significance to developing nations, their importance to the concept of GNH and their sensitivity to policy initiatives.

- Audit and Inventory
- Import Substitution
- Licenses, Tariffs, Quotas and Subsidies
- Agriculture and Rural Communities
- Transport
- Capital Development Projects (Hydroelectric Power)
- International Debts
- Currency Valuation and Trade Deficit
- Monetary Reform
- Taxation
- Fixed Limits
- Service Sector and Tourism
- Education, Culture and Celebration

¹⁰ Quoted in, Susan George, Fabrizio Sabelli, Faith and Credit, Penguin. 1994.

5) Potential Application and Relevance of these Policies to Key Economic and Social Sectors in Bhutan

This section attempts to highlight the nature and scope of the initiatives that might be undertaken by a government wishing to engage in the global economy, secure a prosperous future for its people and also maintain the identity and integrity of its culture. Some of the policies are regulatory, some are supportive, and some are creative. There is a blend of what might be termed New Economic reforms, well-known (if sometimes unfashionable) policies, and *ad hoc* suggestions. The discussion is deliberately open-ended. Rather than advocate any specific programme, the aim is to identify the *type* of decisions that could be made and powers exercised in crucial economic sectors. The overall intention is to emphasise the enormous scope for action and equally enormous responsibility placed on a government committed to a policy as demanding as GNH. ...Everything matters.

Audit and Inventory

Those who are happy know they are blessed with many gifts... So, in line with all good moral advice, "count your blessings". In addition to its social fabric, Bhutan already has considerable material wealth. Some of it is natural capital; some have been created by human endeavour. Although the focus is not simply on material issues, it is a valuable exercise to assess a country's material wealth; its natural capital, tapped and untapped; its agricultural and industrial capacity; its homes, villages and cities; roads, waterways and infrastructure. Such an audit can be highly useful in informing policy-making across the range from industry and agriculture to education and the environment. A country's intellectual and cultural capital is of course beyond measure, and sight should never be lost of it. But that which can be counted is worth counting.

Import Substitution

Section 3 above discussed how central to a culture are the myriad small things of everyday life; how we dress, household

items, consumer goods, what these represent and how they are produced. The influx of Western consumer goods has the capacity to change a culture beyond recognition. Not only are the daily routines of life in the home altered, but domestically produced products are replaced, whilst the need for money to buy the imported goods creates a resultant pressure to export/earn revenue - all these can exert massive aggregate changes across an economy.

One policy pursued very vigorously and effectively by a number of Asian countries in the 1950s and 1960s was that of import substitution. Whilst exerting a strict protectionist ethic (backed up by the lack of foreign currency to buy imported goods) nations such as Japan and South Korea found ways to produce and market their own versions of western consumer products.¹¹ This policy has many virtues. First, the reality of actually *making* an item is brought home to a people and their economy. Second, a specifically indigenous character can be instilled into the product. Third, the pace of change is regulated and slowed since the policy requires some development. Fourth, the monetary balance and integrity of the country's economy is maintained.

The policy of import substitution does, however, have a problem - or at least an apparent weakness. Goods that are easy to make, and which Bhutan could produce itself without too much effort, are precisely those goods that are already available cheaply on world markets. There is therefore a great temptation simply to import them. By the same token, products that are complex to manufacture are likely to be more expensive and place greater revenue demands but, since they may require an industrial base that the country lacks, the country feels it has no option other than to import them. But this apparent problem actually proves the validity of the policy. It is precisely *because* import substitution is no 'quick fix' that the policy has such merit. A country is obliged to develop a genuine industrial base and this takes time. The old

¹¹ Cheryl Payer, *Lent and Lost*, Zed Books, 1991.

maxim “look after the pennies and the pounds will look after themselves” is highly relevant. Savings that are made by import-substitution of cheaper products can then allow the judicious import of more high-tech capital goods, leading to modest but progressive industrialisation.

It may not be feasible for Bhutan to manufacture its own mobile phones and televisions, but it is certainly possible for it to produce many simpler household items, from crockery and cutlery to furniture and fittings. Precisely what Bhutan is capable of producing for itself, learning from Western technology and adapting this to its own material needs and cultural priorities, is an adventure in itself. To have a healthy acceptance that change is inevitable and healthy, but defiant that this should be *Bhutanese* change, is a policy that must have relevance to GNH. It is astonishing what a small country can actually produce for itself, especially in an era when expertise and technology is capable of meeting a demand for small and medium-scale production.

The potential for import substitution emphasises the value of an economic audit, since intelligent planning can be undertaken; energy can be directed towards key processes and products that provide a maturing and gradually diversifying industrial base. It is worth also noting Bhutan’s close economic links with India, as well as its other main trading partners. These links could be highly valuable in any programme of modest industrialisation and import substitution in supplying raw materials, semi-manufactured goods, equipment and expertise.

Licenses, Tariffs, Quotas and Subsidies

Investment in import substitution can be coupled with restrictions or heavy tariffs on chosen foreign goods. Policies such as import licenses, tariffs, quotas and subsidies - all of which ‘interfere with free trade’ - are frowned upon by orthodox economists. Yet a country clearly has every right to adopt a programme that vigorously defends and seeks to improve the welfare of its people. If the United States is

justified in placing tariffs on imported steel to protect its steel industry, Bhutan is equally justified in placing tariffs that help it prevent or regulate the mass exodus of currency on cheap consumer goods from abroad, whilst gradually developing its own industrial base and protecting its cultural integrity.

A special note has to be made with regard to subsidies. As with tariffs, modern Western nations and their economists frown on developing nations when they grant subsidies, yet such financial assistance is rife in the wealthy nations. This involves not only the more obvious instances such as EU farm support, but direct grants to private firms involved in public services (such as railways), multi-million dollar deals to entice multinationals to invest in a country and countless regional support programmes that allow businesses to apply for government grants and funding. These are investment and support subsidies, pure and simple. They have no greater validity in terms of 'free market' economics than food subsidies in developing nations. In short, subsidies are everywhere.

In discussing tariffs and subsidies, it is worth drawing attention to the seminal work of Tim Lang and Colin Hines. Their book *The New Protectionism*, whilst acknowledging the value of free enterprise, vigorously defends the right of governments to adopt policies that regulate imports and support indigenous production.¹² Colin Hines' more recent book, *Localisation; A Global Manifesto*, is equally important.¹³

Agriculture and Rural Communities

All the evidence of the past 50 years warns of the danger of an over-emphasis on the production of foodstuffs for export. World markets in food commodities are mostly glutted and prices are notoriously volatile. The first duty of a government is to feed its people and the first priority of land should be to

¹² Tim Lang, Colin Hines, *The New Protectionism*, Earthscan, 1993.

¹³ Colin Hines, *Localisation, A Global Manifesto*, Earthscan, 2000.

produce food for domestic consumption; not export. A domestic market is predictable and stable, crops that conform to the climate and soil are already known and farming systems and land tenure are well established and constitute a vital element of rural culture.

This does not mean that indigenous agricultural systems are incapable of improvement. In many developing nations, much work has gone into improving traditional methods, drawing on the experience of farming elsewhere and the ingenuity of intermediate technology. More effective tools and equipment, advances in crop varieties, irrigation systems and cooperative marketing and machinery schemes - all these have in various countries given great support to subsistence agriculture to the point where life is easier and productivity markedly improved.

Land tenure/usage is a vital aspect of traditional rural culture. Any policy or sequence of events that seriously affects land tenure threatens the foundation of rural communities. This in turn is potentially disastrous for the continuity of those communities and the practical lifestyle that binds them together. People simply cannot be expected to adhere to traditional cultures and values if the link between land, labour and community is drastically or rapidly altered. In a country such as Bhutan, where some 50% of the population is based in rural communities with an agricultural base, every effort needs to be made to support such communities and help them thrive by making subsistence farming and village crafts more viable. If this does not happen, rural depopulation, flight to the cities and the poverty of shanty towns promises a bleak future not only for the landless population, but the nation as a whole. It is clear that the Government of Bhutan recognises this danger and has been active in supporting its rural sector.¹⁴

¹⁴ Chris Enthoven (ed) *Gross National Happiness, Gross National Product - A meeting between two cultures*, Ecooperation, 2001.

It is worth recognising that rural communities worldwide and throughout the ages have tended to suffer gradual impoverishment as money and wealth flows towards towns and cities. Many developed nations compensate in some measure for this, either deliberately by injection of additional funds to councils administering rural areas, or less deliberately through progressive welfare and taxation systems.

In the absence of such structures, rural assistance can simply be responsive to need. Rural communities can benefit from assistance with marketing agricultural produce, whether by government boards or cooperative schemes; transport systems can be devised; cooperative ventures that share agricultural and other equipment can be supported; community-building programmes implemented. There are countless ways in which rural life can be supported and improved, and its value acknowledged.

It is important to recognise also the importance of agriculture for export. The crops produced can bring much needed revenue to the country as a whole and into rural areas. Without contradicting the primacy of agriculture for domestic consumption, the production of crops for export may also be an appropriate opportunity for government assistance, whether in investment, marketing or transport.

Again we see the danger of adopting entrenched positions. To assert the importance of domestic agriculture does not lessen the importance of export crops. The irrelevance of the old capitalism/socialism divide is also apparent. It is perfectly reasonable for a country to adopt a freehold land policy (notionally capitalist); limit this to a maximum acreage (notionally distributist), coupled with land usage obligations (notionally socialist), coupled also with supportive cooperative systems involving marketing or access to machinery (notionally communist). It is also perfectly reasonable for a country to regulate land usage applying an entirely different set of standards and tenure for land designated for export

crops and land designated for domestic market produce. So far as a country such as Bhutan is concerned, it is far more a question of what works most appropriately, bearing in mind the established pattern of agriculture and broad priorities of GNH. Again, the value of an on-going audit that monitors the use of land is clear.

Transport

Motorised transport is, without doubt, one of the hallmarks of Western culture. The increasing demand for transport probably constitutes one of the greatest threats to a country such as Bhutan. Transport easily becomes a culture in itself, subverting other cultures and overwhelming more fulfilling and worthwhile aspirations. The change in a country such as Bhutan of widespread individual car (or even motorbike) ownership could be calamitous. Cars constitute a colossal expense individually and in aggregate to a country. Whilst aiding the transport of people and goods and linking urban and rural areas, they can also severely fragment communities. In many developing countries, the only regulator of private transport is poverty, denying people access to privately owned motor transport.

Many small countries have faced this problem and done so effectively. The solutions they have arrived at vary, but are 'right for them' in many cases. Elements of these solutions are; the provision of good public service transport, especially buses; the permission of a restricted number of cars/vehicles often associated with particular roles - doctors, police, fire-services etc; the issuing of licenses for cars operating as taxis; the permission of an appropriate number of machines/vehicles for use in agriculture and industry and in the collection/distribution of material goods.

As with so many issues, this is an area for close, realistic study - the permission and provision of an appropriate level of motorised transport and/or services always bearing in mind the knock-on effect of that provision. This is a delicate matter; the aim should be to support the culture rather than

unwittingly and indirectly subvert it. It is the widespread individual ownership of motorised transport that fragments communities. An appropriate level of transport connecting cities and towns with rural areas can be mutually beneficial and an element of the support for rural communities that is so vital.

Capital Development Projects

Bearing in mind the potential of Bhutan for hydroelectric power, this is a vital area of policy. As a general rule, capital projects do not repay the monetary investment they require. This applies to majority of services in the developed nations (rail, road, healthcare, electricity). These services invariably run with an enduring and heavy debt, often also requiring 'bail-outs' from national governments. The reasons for this blatant defiance of the theoretical laws of economics lie largely in a complete reliance upon the debt-based financial system.

Similarly, capital development projects in developing nations funded by loans from the World Bank fail, generally, to make the anticipated returns on the investment. As discussed above, this has had a catastrophic effect in developing nations. Since the residual debt is denominated in dollars or other hard currencies, the debt overhang from past capital and development projects has placed these nations in the position of having to seek a surplus of exports over imports year on year. Commodity prices have collapsed, currency values have fallen, prime assets have been sold off to multinational corporations, loans have been rescheduled, but still the debt overhang persists and grows.

If there is one lesson to be learned from this 'development' debacle of the last 50 years, it is this: DON'T borrow US dollars from the World Bank or IMF or any other source for a capital project and expect to be able to repay these loans. The competition for dollars is so all-pervasive and export markets are so intensely competed and unpredictable that even if a project is a physical/material success, its financial failure is

almost assured, resulting in endemic and crippling international indebtedness.

Where then does this leave Bhutan in terms of developing its hydroelectric potential? The first point to appreciate is that the demand for electricity in neighbouring nations places Bhutan in a powerful negotiating position. Next, it should be realised that there are several potential models of development that avoid the dangers of multi-million dollar debts for the country.

One option is that, rather than lending funds to the country of Bhutan, the World Bank can be requested to lend funds to *a specific project, run as a commercial venture*. This represents an entirely new policy. It creates a joint liability for projects, conforming to recent calls for greater accountability and co-responsibility on the part of the international lending institutions. A country cannot be declared bankrupt and its debts written off, a commercial venture can. It is wholly wrong for an entire nation to suffer in perpetuity the economic mistakes of the past, whether these reflect the inadequacies of their own leaders or the flawed economic wisdom of western advisers. Restricting debts to specific projects places those directly involved - borrowers and lenders - in a position of shared responsibility, and limits the liability of countries where the project is taking place.

At this point in time, there is likely to be little appetite on the part of the IMF and World Bank for such a policy; however if the demand for such funding became general internationally, attitudes might change. Certainly, there is a desperate need for new models of development.

However, such a policy does not represent the only option. The principal material beneficiary of successful hydroelectric development would be India, a powerful and by comparison with Bhutan, a relatively wealthy nation. India cannot expect Bhutan to shoulder the entire development costs, and financial risk, of hydroelectric development, especially since

India has considerable prowess in the engineering and construction industry. Not only is there the opportunity for India to engage and share responsibility in the project, but they are also in a position to lobby the international lenders on behalf of such a proposal, possibly under the terms outlined above.

Finally, there is another potential source of capital funding, although this is far from an established avenue. The traditional model of financing capital projects in developing countries involved domestic saving within that country, coupled perhaps with some inward investment. Since domestic saving seldom made sufficient capital available, by the 1950s, countries were being encouraged to 'borrow, invest, export, repay' from the World Bank, IMF or commercial lenders. The complete and resounding historical failure of this 'borrow, invest, export, repay' model, has coupled with an awareness that there were theoretical flaws in an exclusive reliance upon foreign funds to develop a nation's natural capital, not least because of the imbalanced currency flows that were generated. Development scholars have, in recent years, become aware of the need for projects to be funded, at least in part, by a domestic source of finance.¹⁵ Since World Bank, IMF and commercial bank funds involve not the *lending* of money but the *creation* of money, there is no reason why domestic capital cannot be created in the same way - by a nation's own central banking system.¹⁶

This offers an entirely original model of development, which involves a combination of funding from international sources and funds created by the Bhutanese Government to mobilise the capital of their own country. This constitutes a strong development model that satisfies and resolves many theoretical contradictions and paradoxes. Currency flows are more balanced, whilst the use of both foreign and domestic

¹⁵ Bade Onimode (ed), *The IMF, the World Bank and African Debt*; Conference of the Institute for African Alternatives, Zed Books, 1989.

¹⁶ Michael Rowbotham, *Op Cit*.

financial capital reflects the mobilisation and involvement of both foreign and domestic *physical* capital. The foreign 'physical capital' consists of imported capital goods and expertise/labour, the domestic 'physical capital' consists of natural resources, capital goods and labour.

If these proposals appear unlikely and counter to the climate of current economic policy, one final point should be born in mind. The mountains, the rain and the rivers will be there for many years to come. There is no need for haste in pursuing such a major industrial venture. The readiness of Bhutan to wait a number of years until acceptable terms for development are put forward could concentrate the relevant minds very effectively.

If or when such projects do proceed, it is clearly in Bhutan's interest to develop this key resource slowly, monitoring the initial project(s) carefully and not allowing the nation to become a cheap electrical generator for what are likely to be the insatiable demands of India for power.

International Debts

In the year 2000, Bhutan's external debt stood at \$245 million. It is likely that the government will be paying in excess of 5% per annum on at least this year 2000 figure; a total of \$12 million annually. Gross exports totalled \$154, so this figure represents some 8% of export earnings. With import costs of \$196 million, Bhutan's financial position is clearly somewhat perilous.

External debt is not just a revenue problem; it is a political one. The current CIA World Factbook website denigrates Bhutan commenting, "Detailed controls and uncertain policies in areas like industrial licensing, trade, labour, and finance continue to hamper foreign investment". This is praise indeed! What Bhutan must beware is pressure to adopt an economic framework that involves 'certain policies' for 'unhampered investment', since this will undoubtedly reflect the neo-liberal Washington Consensus. All round the globe,

countries have been forced to conform to an ideology that includes sweeping deregulatory measures in trade and finance, privatisation of state-run commerce, auctioning of prime natural assets etc. These provide the foreign investment climate which, it is argued, is the route to future progress and prosperity. In this sense, international debt is properly viewed as a tool of intrusive political leverage.

If the point is reached where debt repayments are impossible for a nation, there is no virtue in agreeing to such conditionality attached to rescheduling, or accepting additional loans by the World Bank or IMF. Failure on the part of a nation to meet debt repayments is, apart from being a widespread problem, actually a problem for the Bank, the Fund and commercial lenders. It is because national governments are deemed to have 'failed' and feel intimidated that they concede to bail-out loans, sell-offs and conditionality. In fact, failed debt repayments present the *lenders* with the problem - what are they going to do?

The entire issue of Third World Debt is a massive, as yet unresolved debate. The existence of unrepayable debts forces the majority of countries - the most materially impoverished nations - to seek a surplus of exports over imports in perpetuity. This creates a gross disturbance in the balance of international trade and is counter not just to all economic rationale, but common sense itself. In the immortal words, "It is clearly impossible for all countries to increase exports and reduce imports at the same time".¹⁷

The possibility of mass default by debtor nations or sweeping debt forgiveness should not be ruled out. There are substantial grounds for regarding the backlog of dollar debts registered against developing nations as invalid and declaring these debts void. The compelling arguments for this are fully

¹⁷ Third World Debt Survey, The Poverty Brokers - The IMF and Latin America, Latin American Bureau, 1983.

discussed in my second book, *Goodbye America!*¹⁸ In brief, the *invariable* failure of *all* developing nations to settle or even reduce their international debts over a half century of mounting debt crisis is incontrovertible evidence that the 'borrow, invest, export, repay' model is deeply flawed when applied to international lending. The unjust terms under which these loans were advanced; the failure of projects proposed or endorsed by the World Bank and IMF; the requirement to adopt austere and deregulatory 'Structural Adjustment' policies ill-suited to their vulnerable economies; the failure to alter these policy-demands despite mounting evidence of the damage being inflicted; the progressive impoverishment of developing nations despite decades of economic endeavour; the refusal to acknowledge the substantial and detailed criticism from qualified observers and scholars - all these arguments converge. The undeniable conclusion is that International debts are substantially invalid. These debts do not represent 'failure' on the part of developing nations, but the gross inadequacies of the prevailing development model, of trading architecture and of international accountancy.

The current refusal to acknowledge the invalidity of the backlog of international debt leaves debtor nations in a curious and somewhat ambivalent position. If only a handful of nations were to default and refuse payment on their debts, citing the numerous reasons for so doing, the entire issue of Third World debt would have to be discussed and settlement reached. In the absence of such action, individual nations continue with their onerous repayments.

A compromise position might be for debtor nations to adopt the framework suggested by a number of Latin American nations during the 1970s. This is to restrict repayments to a set percentage of export revenues - 10% was suggested as the maximum an economy could actually sustain - and thereby apply some form of ceiling to those repayments.

¹⁸ Michael Rowbotham, Op Cit.

Precisely how long a nation can shrug its shoulders, perhaps offering reduced payments, is not clear. What is clear from the experience of Malaysia is that nations that do stand their ground, particularly if they adopt a vigorous and independent economic policy, are immeasurably better off in the long term than those that succumb to the dire warnings of currency collapse and exodus of foreign investment. Malaysia, under its President, Mahathir Mohamed, refused to accept IMF bail-out loans during the Asian crisis of 1997, nor accept their 'recipe for recovery'. In fact, Malaysia adopted policies that were almost the complete reverse of those prescribed, fixing the value of the currency, declaring the 'Ringitt' valueless outside the country, refusing to acknowledge its trading on foreign exchanges, locking in foreign investment, protecting the stock market, favouring domestic investment and reflating the economy through its own Central Bank. As a result, Malaysia experienced rapid recovery from the financial crisis, emerging with an incomparably stronger and more comprehensive domestic economy and without the burden of additional dollar debts. After years of anger and derision from foreign observers, the grudging conclusion of the World Bank was that Malaysia's economic success was "...remarkable".

Malaysia's programme of rapid industrial expansion may not be one that Bhutan wishes to pursue, but the principle of independent action is sound and their experience highlights the huge range of policy options available to a sovereign nation. One additional note should be made; President Mahathir Mohamed demonstrated not just courage and determination, but immense economic competence and judgement in administering the Malaysian recovery programme.

Currency Value and the Trade Deficit

In geographical terms and because of its special relationship with India it makes perfect sense and is convenient to peg the value of the Ngultrum (BTN) to the Indian Rupee (INR) on a 1:1 basis. In trade terms, however, this fixed currency rate has partial and perhaps doubtful validity. Bhutan's main

exports are to India, the US, UK, Pakistan and France; whilst the country's main imports are from India, Japan, Germany, UK, and the US. The problem is that the value of the Indian Rupee has fallen year on year and with it, the value of the Ngultrum has fallen in relation to other world currencies, including Bhutan's other trading partners.

If the value of a nation's currency falls, imports become more expensive and exports earn less foreign revenue. Successive devaluations by the entire community of indebted developing nations, all of whom are anxious to boost export volumes, has led to the currencies of those nations being grossly undervalued in real terms. Driven on by a competition to devalue and thus secure export markets, the developing nations are now hemorrhaging material wealth for pitiful returns. This is the reason for many of the trade imbalances in developing nations. These trade imbalances proclaim trading on the part of developing nations to be a financial failure - they are exporting less than they are importing. But in terms of *volumes of material wealth*, developing nations have never produced nor exported more! This is the damage wreaked by Third World Debt and the colossal failure of international trading architecture.

Figures demonstrating Bhutan's trade deficit were given in the section above discussing international debt. It is a worthwhile exercise to compare the current volumes of exports and imports with the currency values of 5, and 10 years ago. The present value of the currency (BTN) is \$1 = 49BTN. If the currency value of just 5 years ago (\$1 = 41BTN) is applied to current export/import volumes, Bhutan's present trade deficit of \$42 million would be reduced to a deficit of just \$5 million. If the currency value of 10 years ago (1\$ = 31BTN) is applied to current export volumes, Bhutan would actually have a trade surplus of some \$40 million! This is the significance of currency values and once again we are confronted by the colossal damage and injustice of Third World debt. The community of debtor nations has been drawn into a suicidal competition to devalue their currencies, as a

result of which their material wealth and labour is rendered so cheap that they serve as export factories for the wealthy nations and their powerful corporations.

So long as the Ngultrum remains tied to the undervalued Indian Rupee on a 1:1 rate of exchange, the policy options are complicated. To apply a surcharge to exports to countries other than India, effectively increasing the currency rate to the rest of the world, is a cumbersome instrument and simply invites foreign buyers to operate through Indian intermediaries. The Ngultrum could be pegged either to the dollar or a basket of world currencies, however this would complicate exchanges with India, which would then be at a variable rate. Another option is to consider revaluing the Ngultrum against the INR on a ratio other than 1:1. This might interfere initially with the established cross-border economy, but provided the rate was realistic and stable, trading patterns would adjust.

With the prospect of more complex economic ties between India and Bhutan, particularly involving expensive and long-term capital projects such as hydroelectric power, it is vital that the issue of currency values is addressed.

Monetary Reform

The failings of the debt-based financial system have resulted in a number of important proposals for reform. The central proposal is that a national government has both the right and obligation to ensure a healthy money supply - healthy not just in terms of quantity, but in constitution and form. A banking system can only create and supply money in parallel with debt, by advancing loans to borrowers. A government can, and to some extent already does, create and supply money to its economy on a *debt-free* basis. However, this government money-creation is restricted to one form only; note and coin - i.e. cash currency.

It is the contention of monetary reformers that, with the declining use of note and coin, a government ought to

establish an alternative basis for the supply of money to an economy. Governments worldwide are already obliged to act to support their economies financially, by undertaking government deficits, which create new funds. Monetary reformers argue that there is no reason for this monetary input to involve the issuance of bonds, thereby creating a debt against the nation and granting profit to private banks. This money can be created debt-free, just as are coin and note. Furthermore, monetary reformers argue that there is now no basis for deciding precisely how *much* government monetary input an economy actually needs. This is done on an *ad hoc* basis, simply covering the annual tax deficit.

The further details of monetary reform arguments and proposals are beyond the scope of this paper, however they constitute one of the most important fields of future economic research and one of the most fruitful areas for policy-making by responsible governments.

In parallel with the government creation of money, monetary reform proposals generally advocate restraints on the bank credit-creating mechanism. For example, mortgages now contribute some 60% of money to the modern western economy and levels of home debt and house prices are spiralling upwards. There is therefore a strong case for applying a legal limit to the extent to which people are permitted to mortgage their income in buying a house. No legal restraint on the income multiplier exists in the UK; over recent years banks have been allowing mortgages of up to 4 or even 5 times a person's annual income, whereas an income multiple of 3 was formerly considered a prudent limit. This has increased the business and profits of the banking system, but has contributed directly to gross inflation of house prices. To place a cap on income multiples would place all buyers in an identical competitive situation, restraining house price inflation and helping ameliorate the domestic debt burden. This would be a notionally 'deflationary' measure to counter the 'inflationary' measure of a government contributing to the money supply.

Without adopting the full range of monetary reform analysis and proposals, a potentially useful policy model for developing nations exists in what has become known as the 'Jersey experiment'. The island of Jersey, one of the Channel Islands off the UK/French coasts, has at times adopted an extremely effective policy of government funding. If a project is deemed viable - the building of a school, the construction of sea defense systems - but the government lacks the funds to finance this, the government will simply create the required funds, finance the project, then gradually tax back and destroy those funds. No long-term inflation is caused; indeed, the government is able to use this device as an effective means of countering recession. This contrasts markedly with the orthodox Keynesian model of borrowing funds from Central and commercial banks, which require not only repayment, but also a profit on the money they create and advance to the Government.

Criticisms of the monetary system have also given rise to important proposals for local currencies and trading schemes (LETS). These can have great value in empowering citizens to create and distribute wealth amongst themselves despite the inadequacies of their national financial system. There is a considerable literature on Local Currencies, Micro-credit, LETS and Trade-and-Barter systems and such schemes have great potential in restoring the prosperity of communities impoverished by circumstance or by inadequate development programmes.

Taxation

Taxation is a very powerful economic instrument. The right and obligation on a government to raise revenues for public services presents governments with great power to influence the shape of an economy. Taxation can penalise, deter and prevent undesirable trends, whilst the funds raised by governments can be used for welfare, to promote desirable investment and development or to protect and support fragile sectors of the economy. The pattern of taxation in modern economies is well understood; it is therefore worth making a

number of specific points in relation to alternative or less common schemes.

The New Economics movement has long argued for greater emphasis to be placed on taxing 'bads' rather than 'goods'. By this is meant, for example, the transfer of the burden of taxation from citizens on low incomes to, for example, petrol - thereby helping to deter excessive transport and reduce pollution. Taxes on excessive earnings, energy use, pollution, land values, unused agricultural land, neglected building sites, currency earnings, foreign profit repatriation, international monetary exchanges (Tobin tax) - many suggestions have been made, and many have undoubted merit.

The reverse of taxation is, of course, subsidy - an equally powerful political instrument, allowing a government to support vulnerable or nascent sectors of the economy, such as small businesses or organic farming. The use of taxation and subsidy should not be seen as contrary to the principle of a free market. The ability of commerce, particularly Big Business, to 'externalise costs' and/or gain an effective subsidy from government capital programmes is well-documented; such market imperfections will always exist. If a government wishes to create conditions using taxation and subsidy that redress such imbalances, or to promote important development, this does not invalidate the market as the decisive point of contact between consumers and commerce. Neither does it betoken a dictatorial, state socialist economy, merely an intelligent structure within which the market economy operates.

Fixed Limits

One of the major characteristics of western 'capitalist' economies is that they are flexible, open-ended systems. People are not, in general told what they must or must not do. Limits are not set on the wealth that can be held nor how a product should be manufactured nor what employment they must accept. Laws exist to prevent the sale of products

that constitute a danger, and there are anti-monopoly regulations, however these economies rely, for the most part, upon the freedom and sanction of the market. The real only regulator of wealth is a sliding scale of taxation plus an inter-generational inheritance tax.

Such freedom has much to recommend it; however it is not the only option, particularly for developing nations. There is no reason why governments should not erect limits and constraints, for example to prevent the accumulation of wealth or the control of vital resources, thereby increasing the opportunity of access for others. A good example of this is to set limits on the size of land-holdings to prevent monopolisation of agriculture, maintain ease of access to land ownership/farming and encourage proper and careful management of the land. As with so many policies, it would be wrong to advocate them in the abstract; but they do represent viable and at times justifiable instruments.

Western economists would view such a policy with horror and it may well have little application in developed economies. But in countries where land reform and distribution is being undertaken, where agriculture is undergoing change and where additional considerations such as rural employment and communities are vital, such a policy could be a valuable stabilising framework. Such *ad hoc* limits can, if the situation justifies, be applied in other sectors of the economy, including property ownership and commerce. It is interesting to draw attention, in passing, to the English company 'Boulton and Paul' which at one time operated an internal income policy that stated that no employee of the company could earn greater than ten times the wage of the least-paid worker in the firm. Such policies seem more satisfying to the conscience than the current situation where an employee in a London company may 'earn' many millions of pounds per year, perhaps a multiple of 1000 times greater than the National Minimum Wage.

The Service Sector and Tourism

The Service Sector constitutes a large and growing part of economies round the world. Whilst Bhutan may not be able to manufacture its own mobile phones, televisions, computers and radios, the country is capable of running the service sectors that supply these technologies, and doing so in a Bhutanese way. Bhutanese radio and television networks, SMS and ISP providers can all be run, saving the country revenue and contributing to the sense of national identity.

In Western economies, the service sector is enormous. Developing countries need, perhaps, to beware of monetising and commercialising those activities that are part of the voluntary economy and the community/home/traditional way of life shared. Perhaps an even greater danger is involved in tourism. In pursuit of foreign revenue, there is a temptation to supply a complex service economy to tourists well-used to such provision. But what *is* Bhutan? Why have people come to visit the country? Have they come to enjoy a stay in a 'western' style hotel, surrounded by familiar restaurants serving familiar food? It may be critical not only for the self-respect of the nation but for its tourism that Bhutan decides what it intends to offer tourists. It is the country's very inaccessibility and lack of development that now constitutes its charm, which offers such a salutary lesson to western eyes and which demonstrates that Bhutan is justified in protecting and revering its culture. Excessive and elaborate provision for tourism cannot but detract from the very magic that draws people to this beautiful country. However, if tourism is based around the expectation that visitors will, for the time of their stay, accept basic provision, adapt to, integrate with and respect the Bhutanese way of life, a form of tourism that is better for Bhutan and more rewarding for tourists will remain. The contrast is between going to Greece and staying in a hotel complex on the mainland or visiting some of the smaller, less-visited islands and finding a welcome amongst the delightful Greek people.

Education, Culture and Celebration

Much comment has already been made about the importance of education to the policy of GNH. It is certainly true that children can be 'educated away' from their culture, by creating expectations of employment, lifestyle and prosperity radically different from that surrounding them. But if this happens, it is a poor and essentially false education. There is nothing to be feared in education, however advanced this may be, so long as the mirage of western consumerism is recognised as such and children are kept in contact with their own culture. With the influx of televised images, the nation as a whole has to be able to deal with and appreciate the ludicrous mythology behind western 'civilisation'. This involves the education of all, not just the young.

For this reason, I suggest it is far more important even than education that Bhutanese culture is celebrated and kept alive. My first thought when I heard about the conference and learned of the nature of the problem it seeks to address was, "I hope they haven't forgotten how to sing and dance". A country's music, literature, arts and crafts are the bedrock of its soul and its identity; their celebration is vital. Imagine my delight when I discovered that, despite the welter of economic concerns impinging on the country, one of the four main components of the policy of GNH is cultural promotion. Imagine my further delight when I discovered that the GNH conference was timed to coincide with one of the major Bhutanese festivals. The value of Bhutan's spiritual and cultural legacy, which provides the country with an inspirational source of energy and focus of consent in the challenge it faces, cannot be overstated. And so long as the country of Bhutan feeds the spirits of its people, support for the policy of GNH will remain strong and the Kingdom's future is assured.