

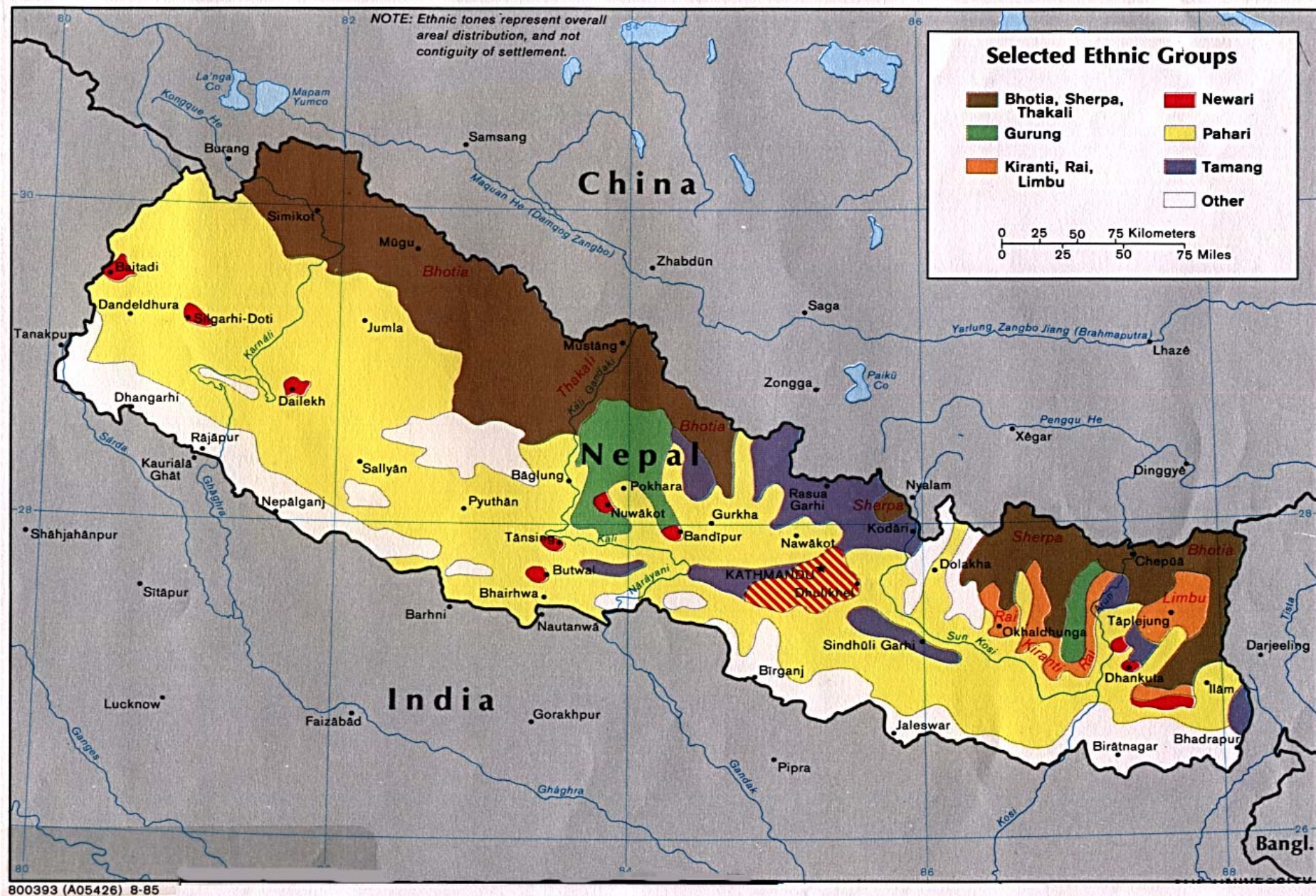
Political Economy of Conflict, Cooperation and Economic Growth: Nepalese Dilemma

Before and After Peoples Revolution of April 2006

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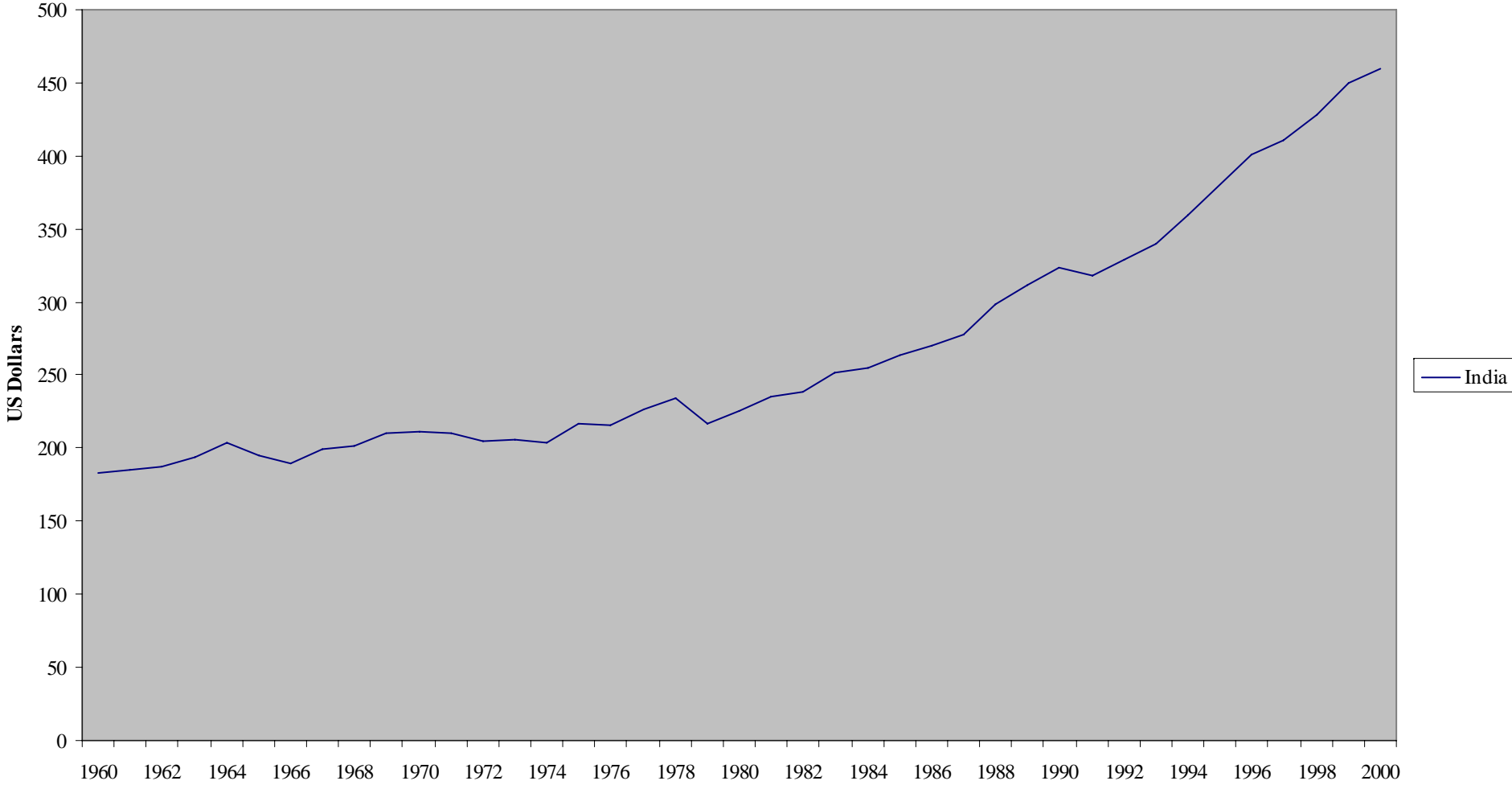
Nepal: Ethnically and Topographically Divided Country of 23 Million People



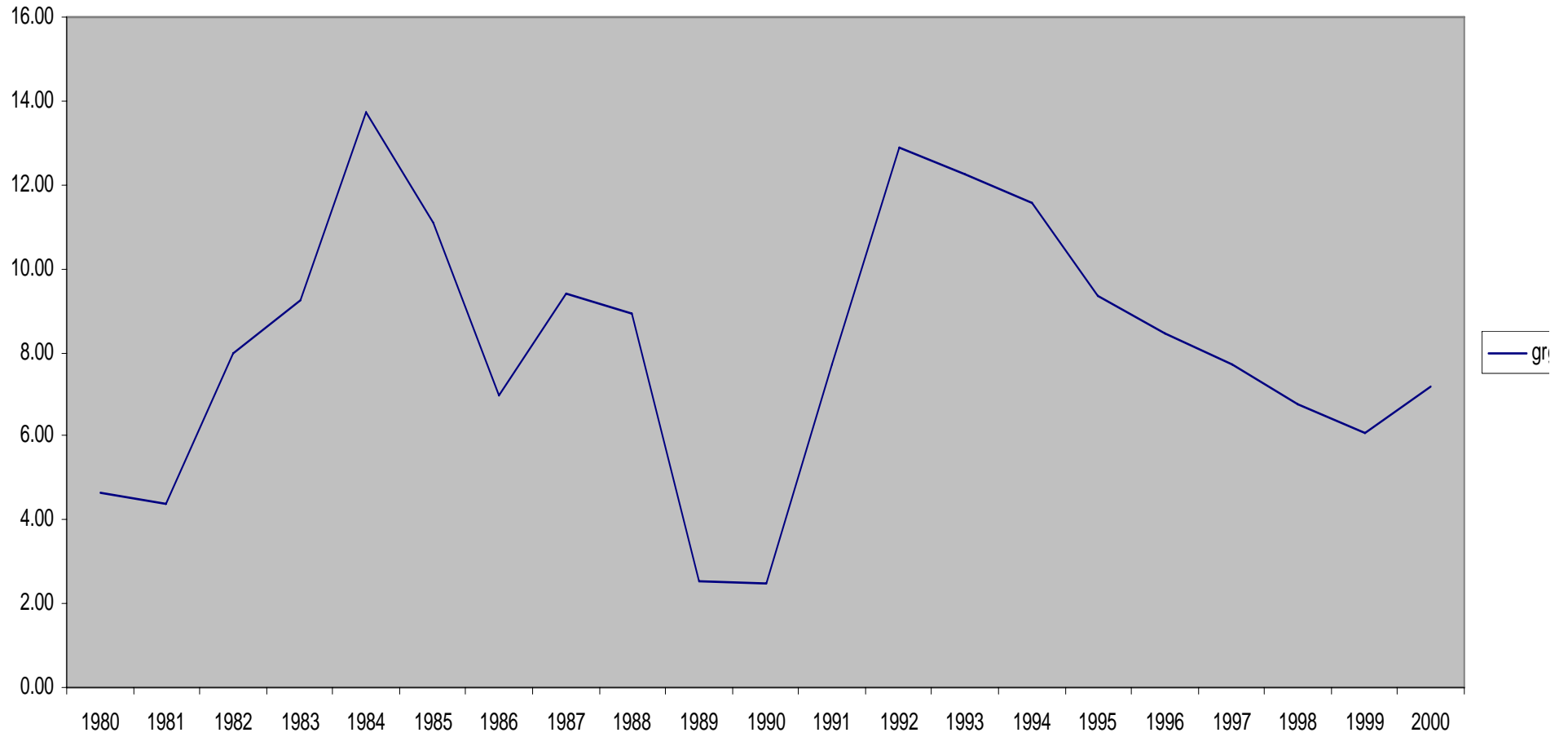
A Small between Two Large Countries of Asia: China and India



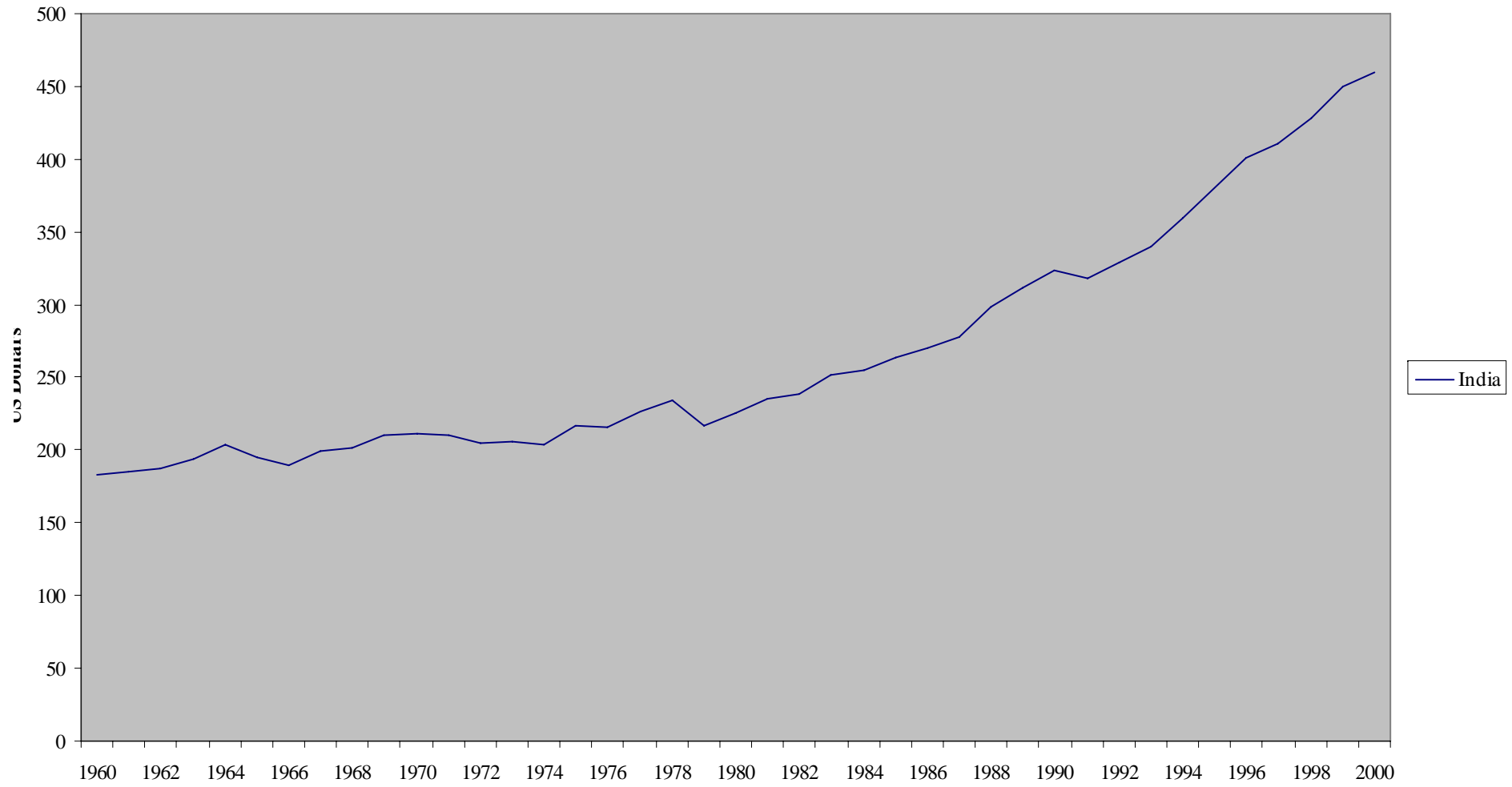
Growth of Per Capita income in India



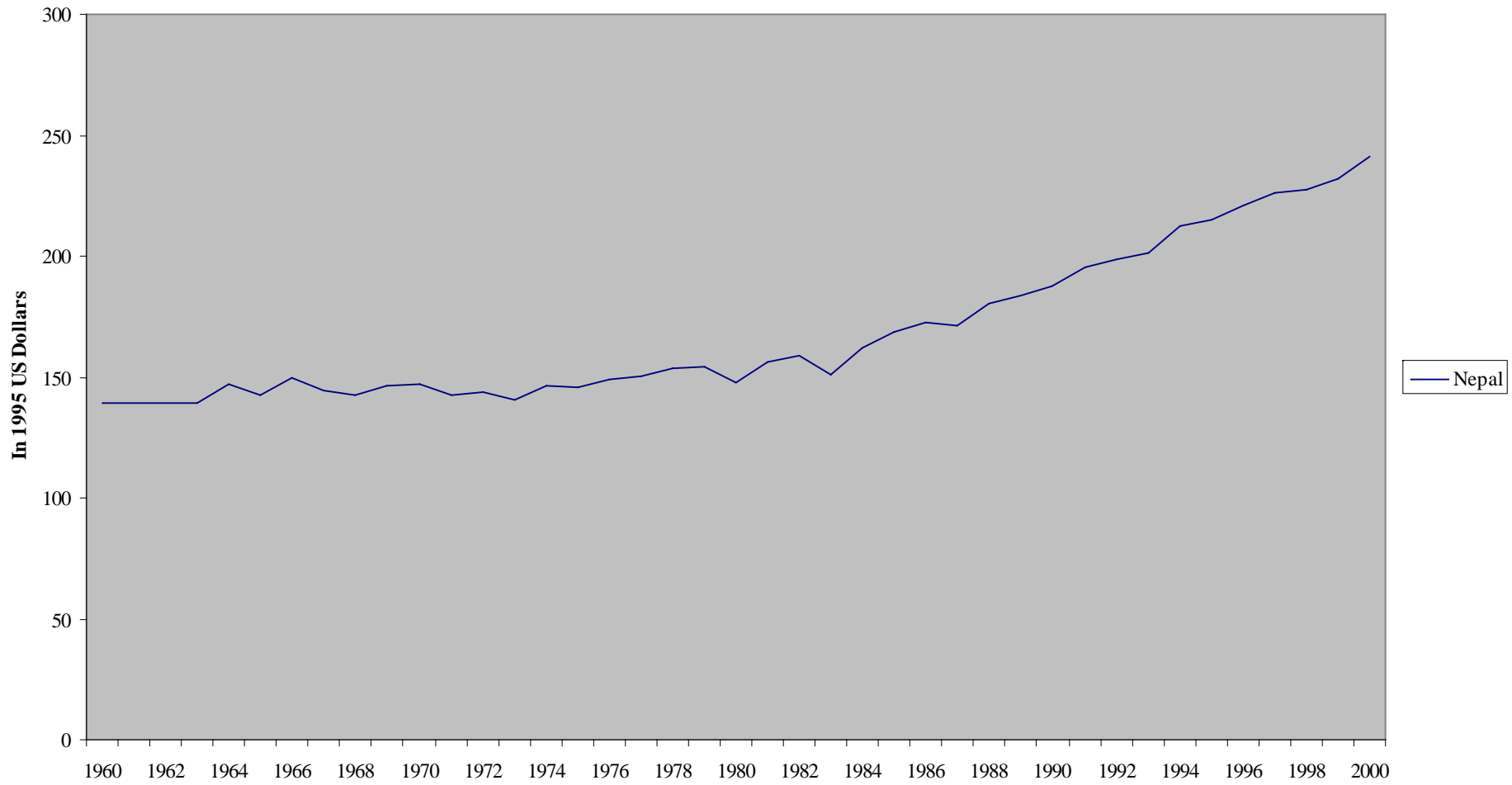
Growth rate of GDP per capita in China



Growth of Per Capita income in India



Per Capita Income in Nepal



Nepal





Structure of the Conflict and Growth Model Economy

- Population: $N = n_1 + n_2 + n_3$
 - Elites n_1 : $U_1(c_1, g_1)$
 - Workers n_2 : $U_2(c_2, g_2)$
 - Rebels n_3 : $U_3(c_3, g_3)$
- Total output Y
- Total consumption C ; Total public services G
- Market clearing

Market Clearing

$$Y = C + G$$

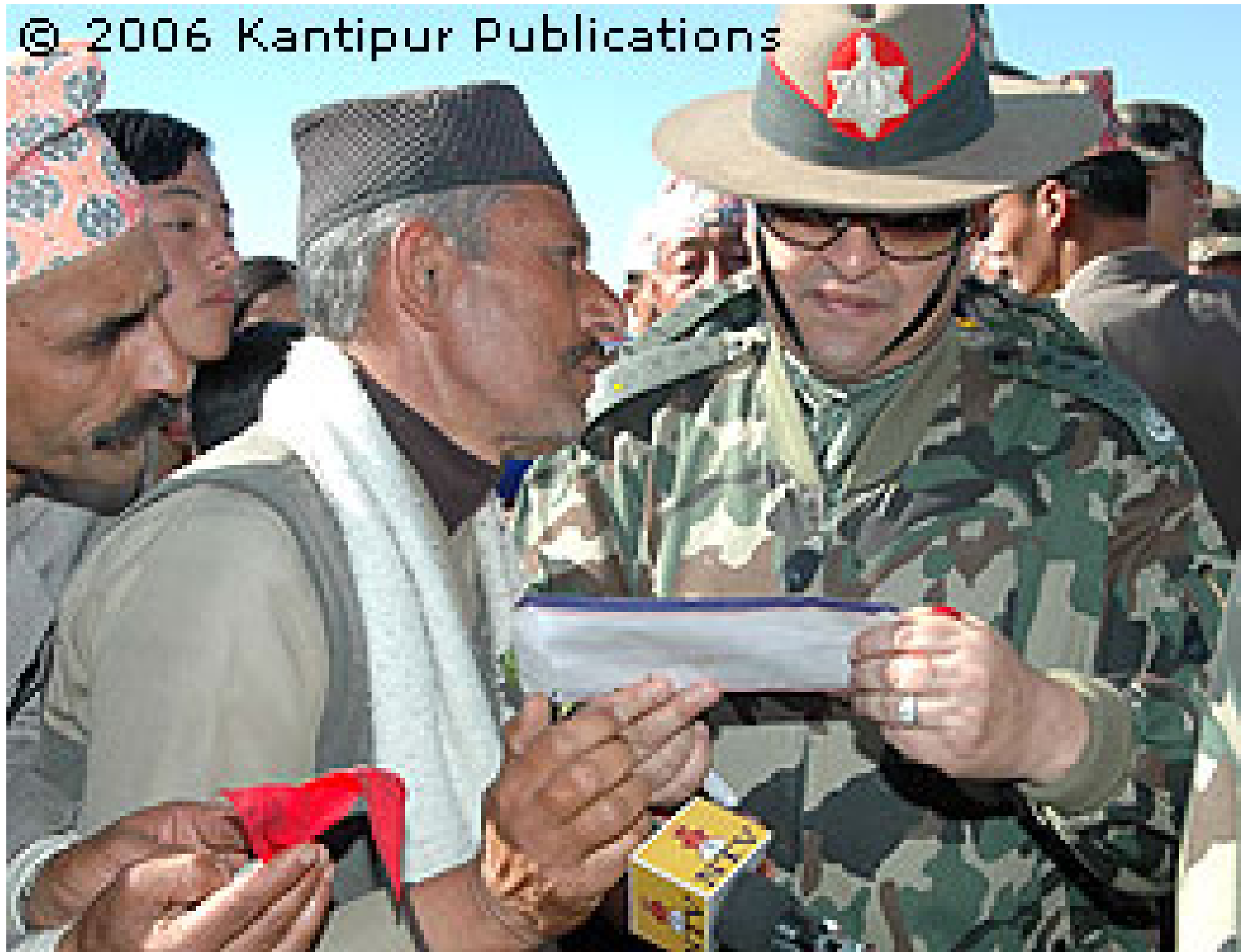
$$C = c_1 + c_2 + c_3$$

$$G = g_1 + g_2 + g_3$$

Issue of conflict

- *Who should pay the taxes? And how much?*
- $T = \{T1, T2, T3\}$
- How should the public goods be distributed among these three groups?
- $G = \{g1, g2, g3\}$
- Some allocations enhance growth others deter growth?

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Structure of Random Strategic Sampling on Conflict, Cooperation and Growth in Nepal

Geographic Area	Sample	Age Group	Sample	Gender	Sample
Tanahun	73	Below 20	34	Male	146
Chitwan	46	20-29	72	Female	84
Kathmandu	22	30-39	44	Total	230
Nawalparasi	36	40-49	45		
Morang	3	50-59	20		
Sunsari	7	60-69	11		
Kaski	6	70-79	4		
Gorkha	4	80-89	<u>0</u>		
Others	<u>33</u>				
Total	230		230		
Ethnicity of respondents	Sample	Educational Background	Sample	Profession	Sample
Brahmin	113	Masters	41	Teaching	44
Chhetri	26	Diploma	62	Student	81
Newar	17	Intermediate	40	Business	20
Magar	17	S.L.C.	38	Farmer	26
Guring	13	High School	8	Housewife	17
Rai	5	Primary	15	Government Employee	21
Others	<u>39</u>	Illiterate	14	University Teacher	5
		PhD	8	Other	<u>16</u>
		Other	<u>4</u>		
Total	230		230		230

Results from a opinion survey conducted by Kedar Bhattarai, Jan-March 2006

Summary of Answers from the Strategic Sampling on Conflict, Cooperation and Growth in Nepal

<p>1. How do you think this problem should be solved?</p> <p>a. by dialogue among parties and democracy 146</p> <p>b. abolition of monarch 39</p> <p>c. People's republic as proposed by Maoists 27</p> <p>d. absolute monarchy 18</p> <p>2. Why is not Nepal growing? (1 least)</p> <p>a. Corruption 104</p> <p>b. Low investment 2</p> <p>c. Political conflict 62</p> <p>d. Lack of ideas and technology adoption 17</p> <p>e. Poverty 27</p> <p>f. Low education 17</p> <p>g. fewer health facilities</p> <p>h. communication and transportation</p> <p>i. inefficient market</p> <p>3. What is the problem with political parties?</p> <p>a. lack of internal democracy 54</p> <p>b. personal ambition 129</p> <p>c. lack of coordination 46</p>	<p>4. What is problem with the King?</p> <p>a. lacks understanding 63</p> <p>b. does not know what he is doing 77</p> <p>c. ambition to retain absolute monarchy 89</p> <p>5. What is the problem with Maoists?</p> <p>a. violent means 117</p> <p>b. unreasonable vision 113</p> <p>6. Do you own any property?</p> <p>House 115</p> <p>Land 36</p> <p>Stocks 7</p> <p>Bank deposits 24</p> <p>None 24</p>
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Results from a opinion survey conducted by Kedar Bhattarai, Jan-March 2006

Sample 230

Traditional Society: Undemocratic regime

- *n1* number the elites, feudal landlords or hereditary rulers :power more owes to their hereditary status: King
- *n2* numbers of middle class working people that make the majority of population; this group are influenced by ideas of democracy, freedom and individual liberties: SPA
- *n3* numbers of people who have been economically marginalised and lack decent jobs or occupation: Maoists
- Lack of freedom and democracy detrimental for growth; rulers want to maintain status squo and strengthen their power; against new ideas.

Economic and Political Power in a Democratic Society

Individual Power
$$P_i = \frac{1}{N}$$

National Power
$$P = \sum_i^N p_i = 1$$

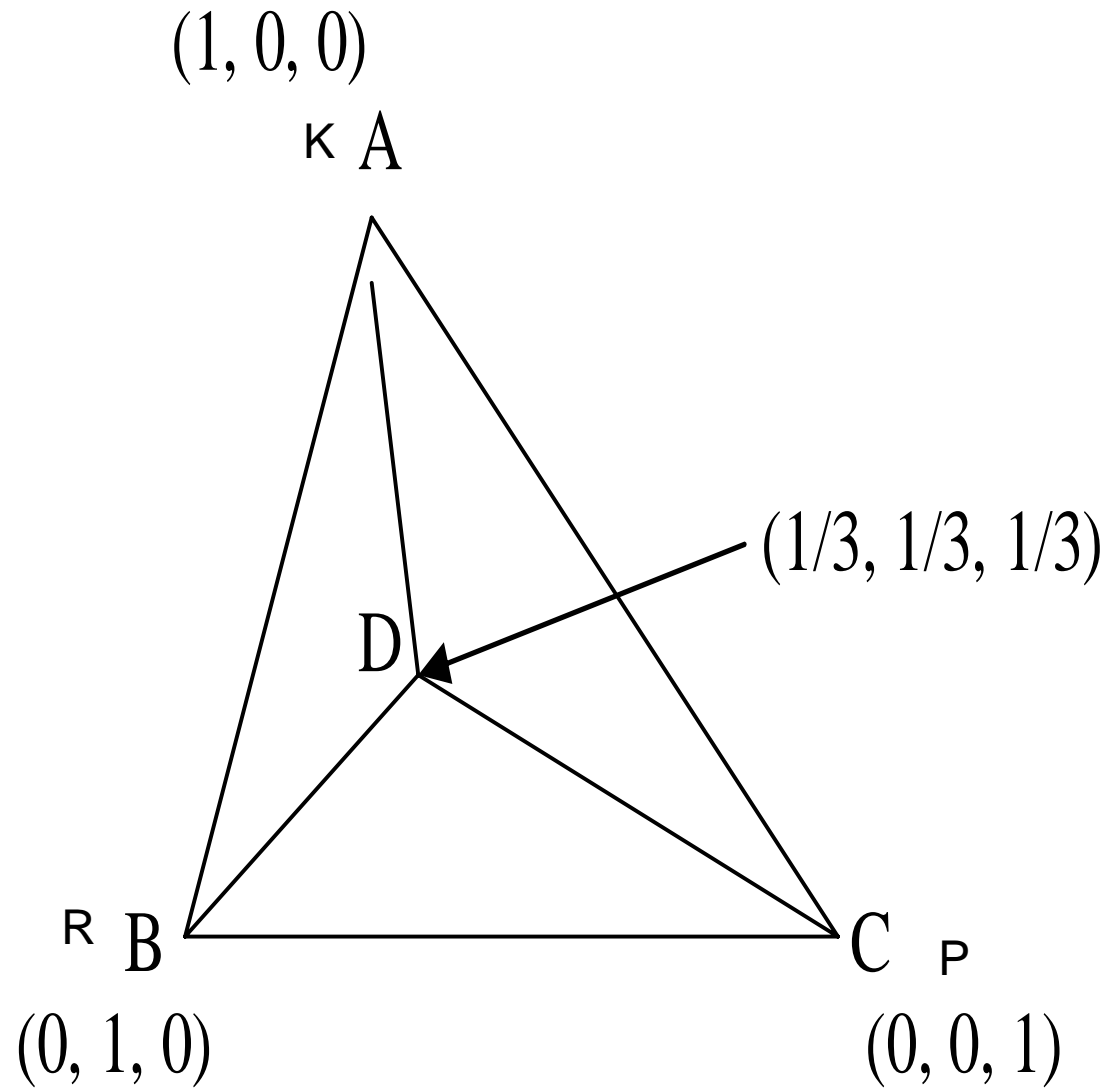
Power Frontier
$$U = P_1 + P_2 + P_3$$

Social welfare
$$W = P_1 P_2 P_3$$

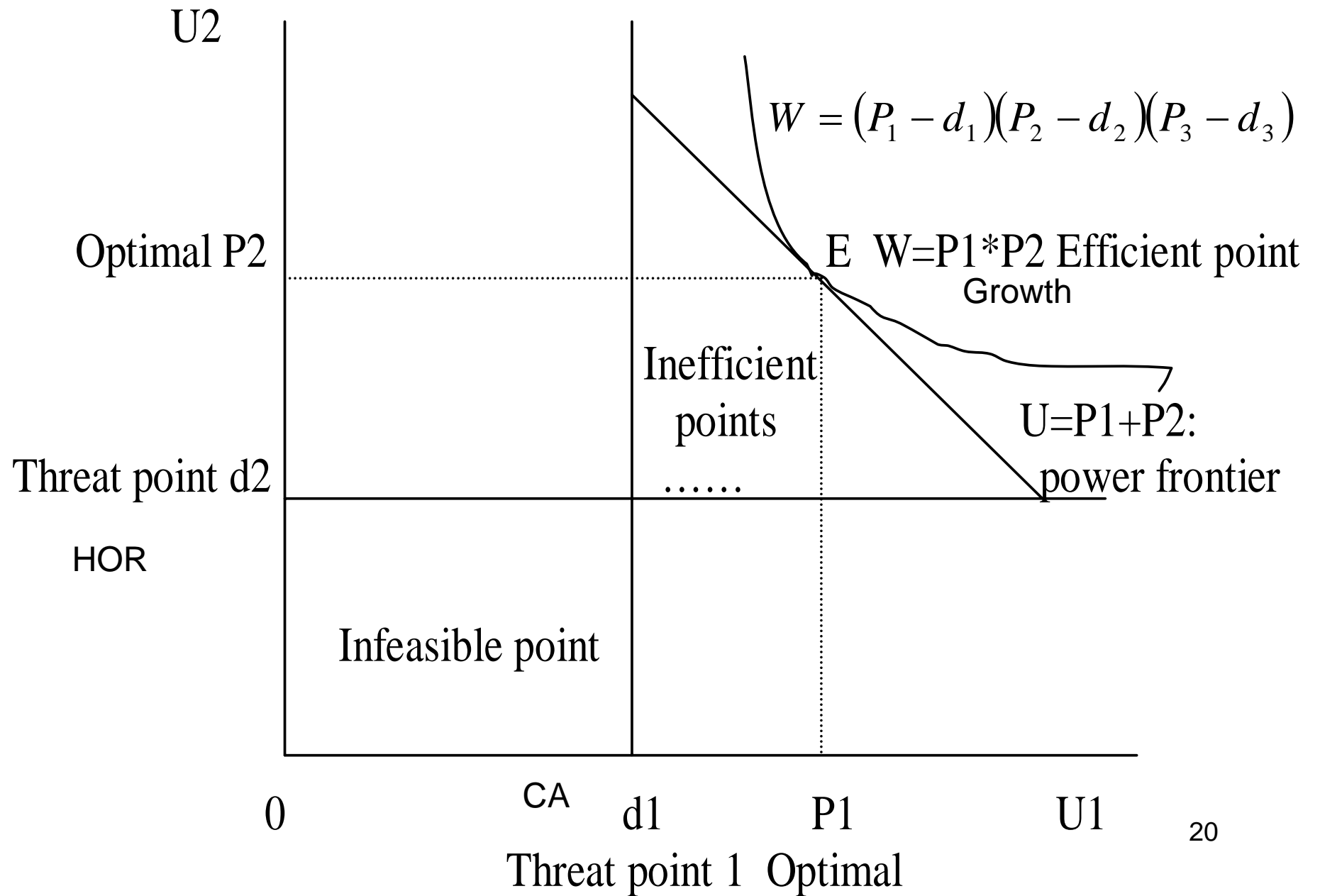
Ideal Status
$$c_1 + g_1 = c_2 + g_2 = c_3 + g_3$$

$$C_1 = C_2 = C_3 \quad g_1 = g_2 = g_3$$

Bargaining For Economic and Political Power



Efficient and Inefficient Bargaining Solutions



Possible coalitions

Singletons

$$\{E\} \quad \{W\} \quad \{R\}$$

Intermediate coalition

$$\{E, W\} \quad \{E, R\} \quad \{W, R\}$$

Grand coalition: Democratic system $\{E, W, R\}$

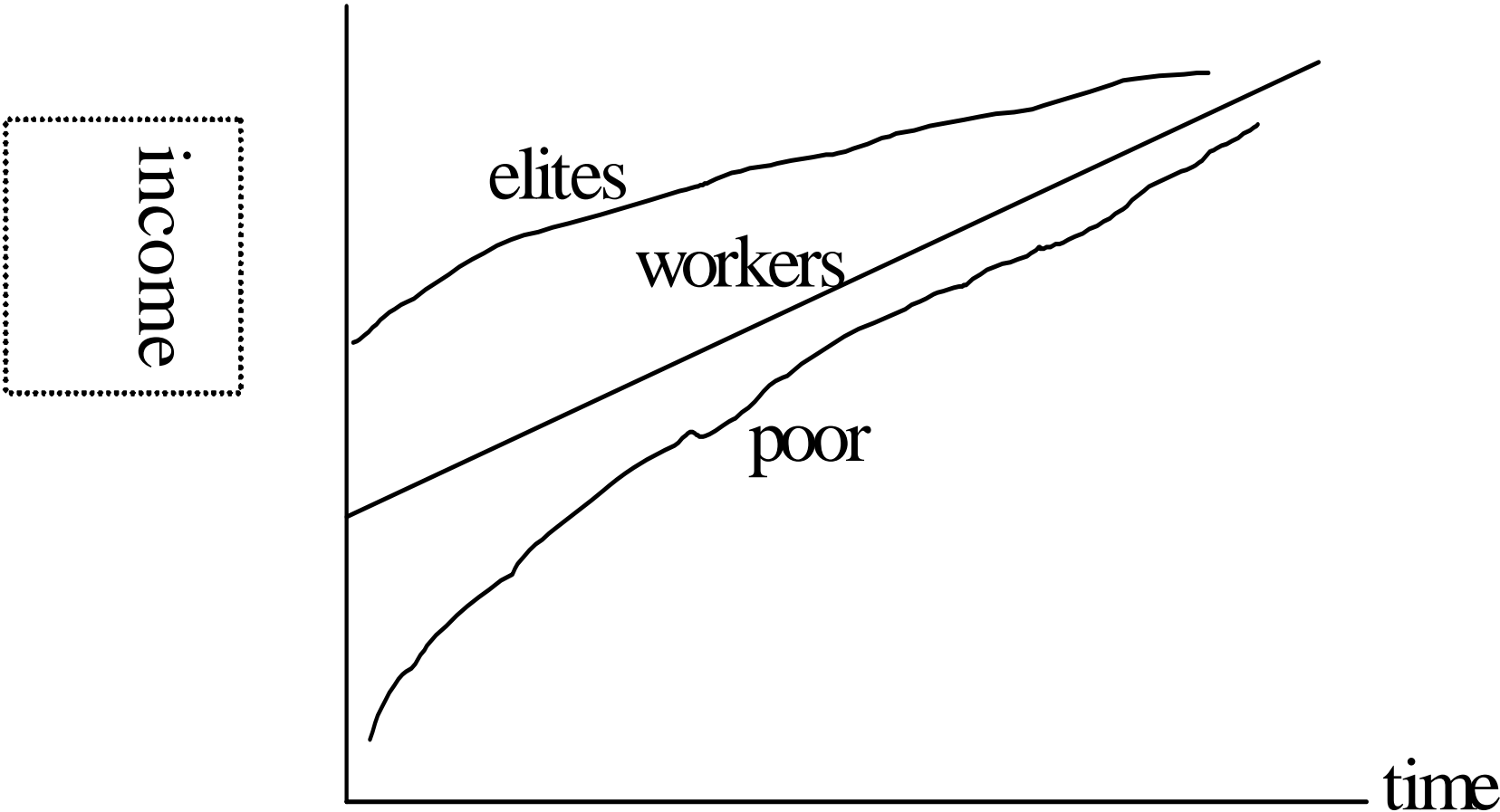
In the Nepalese context

$$\{K, P, R\}$$

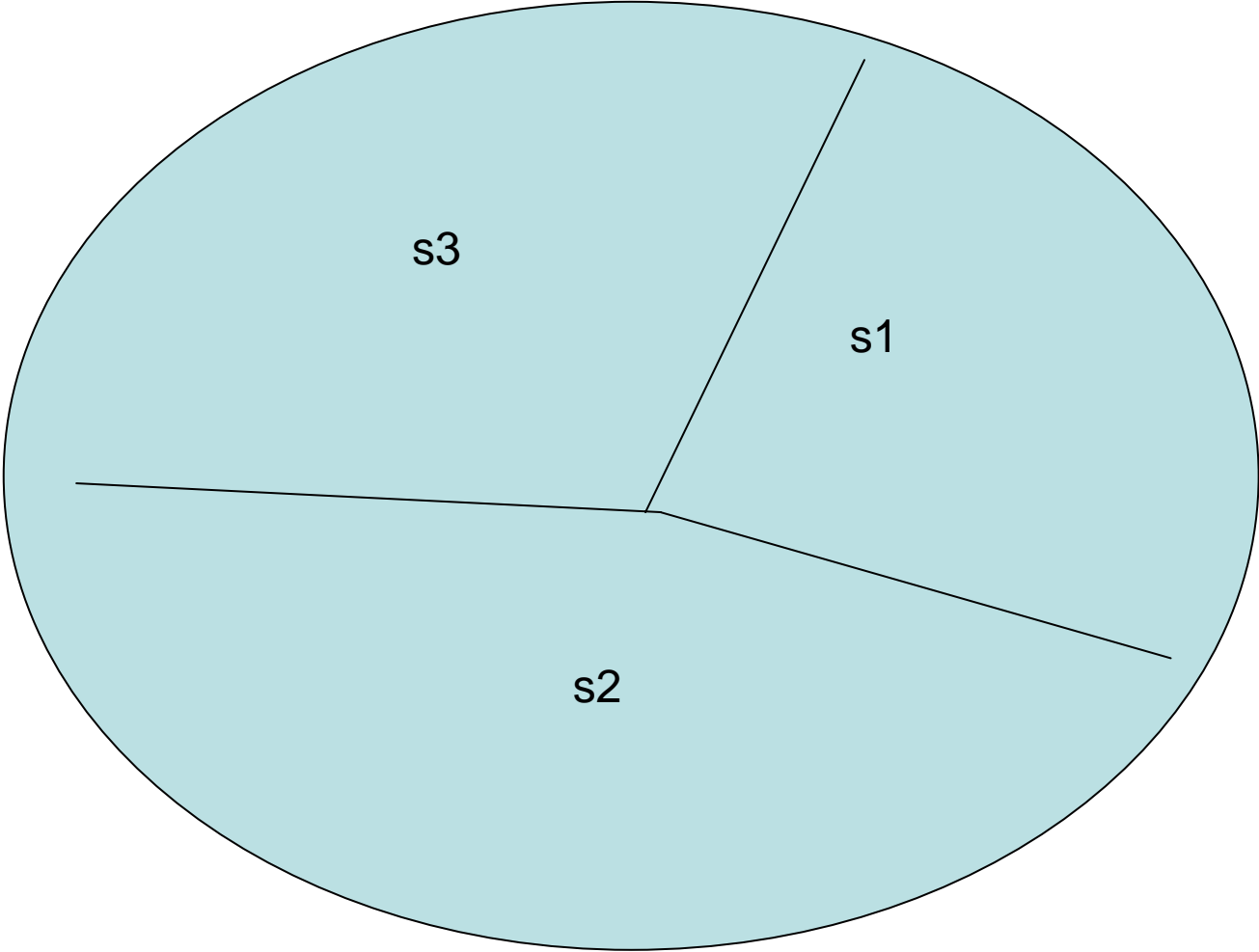
$$\{K, P\} \quad \{K, R\} \quad \{P, R\}$$

Cooperative Solution

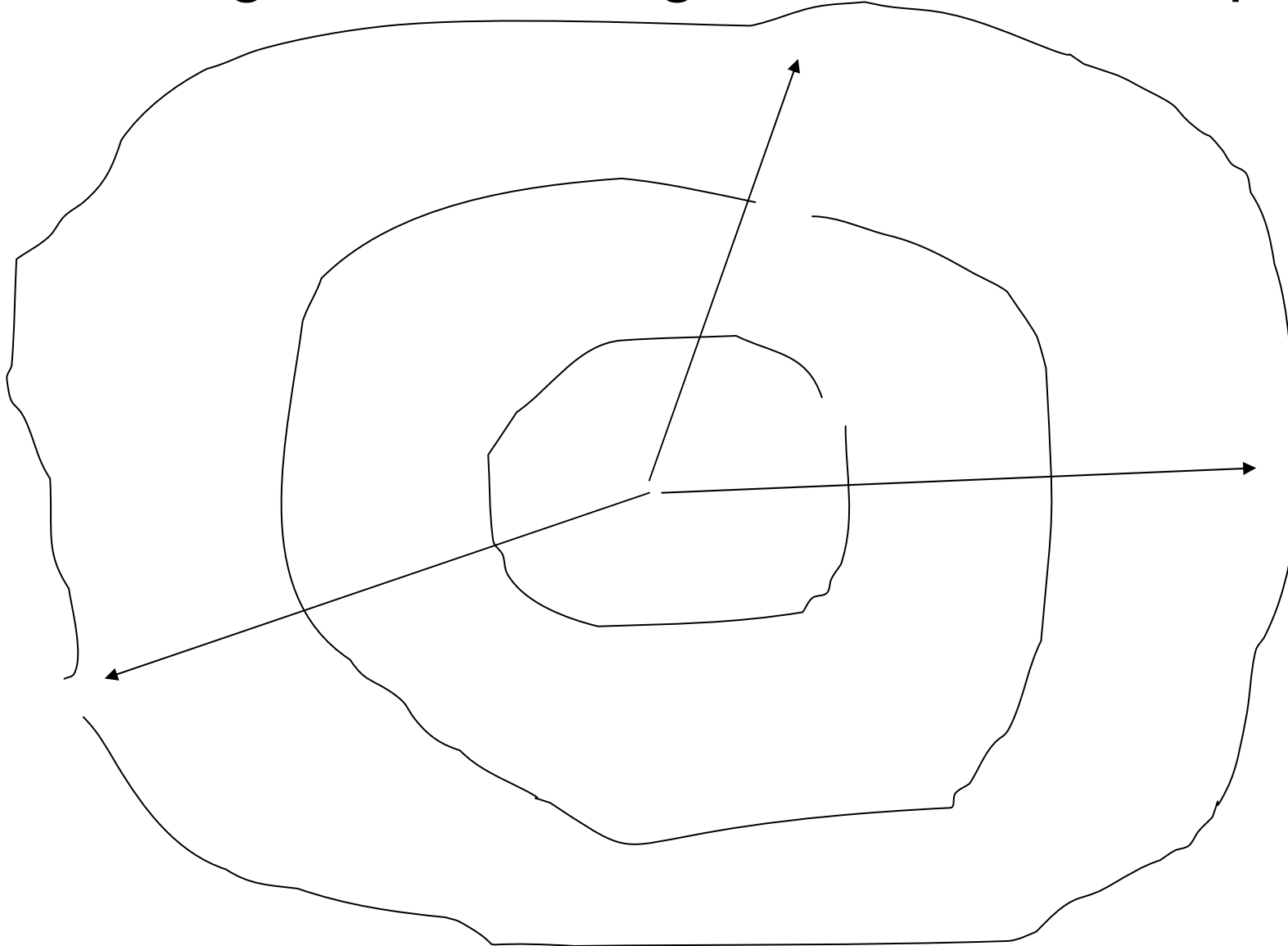
Growth of Income and Transition to a Steady economy with Coordi



Short -sighted view of growth and development

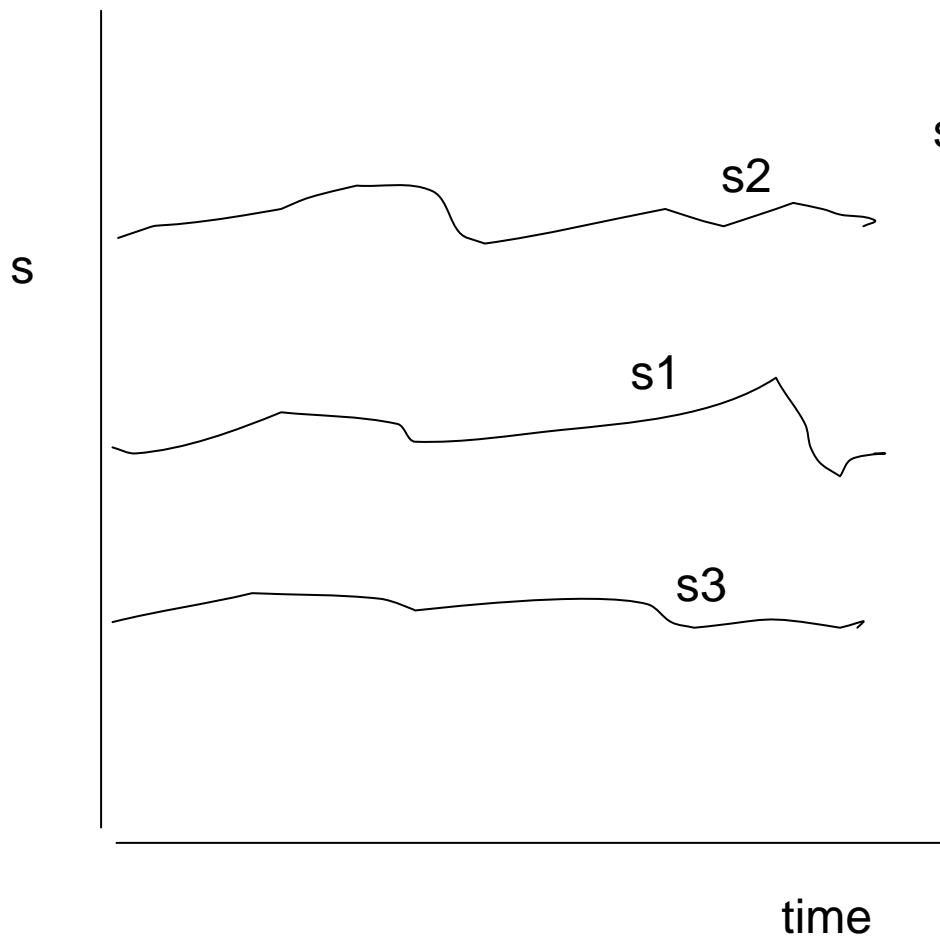


Far-sighted view of growth and development

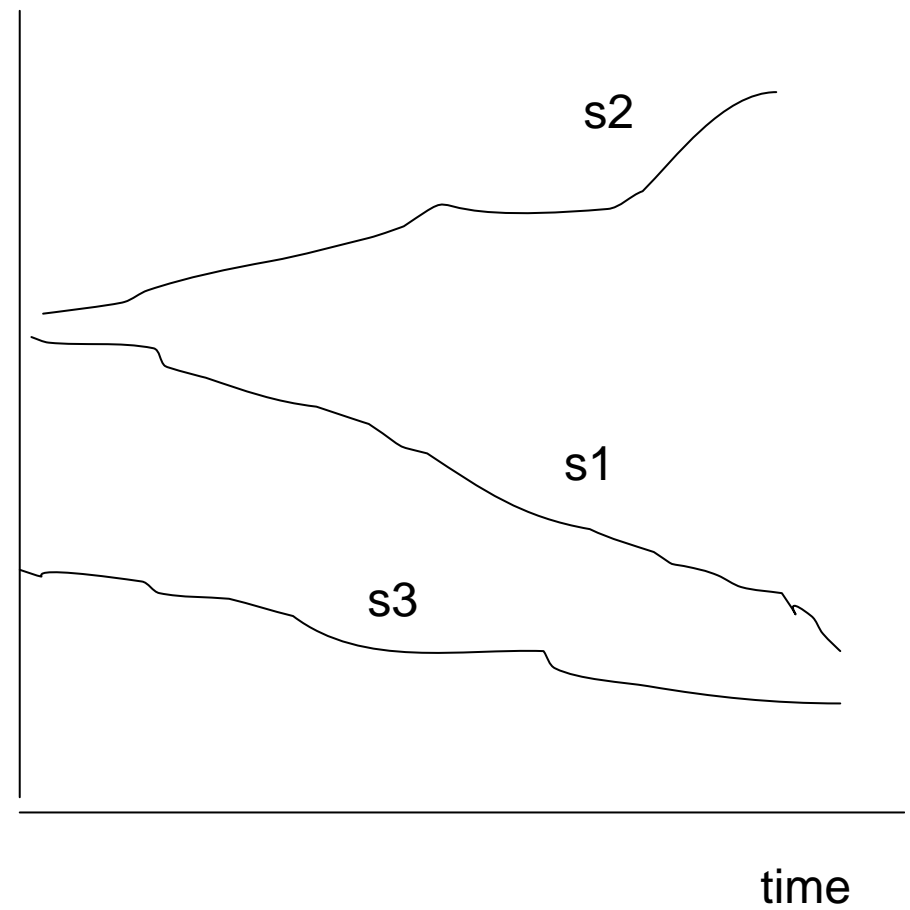


Share of income

Non-cooperative Short sighted Scenario

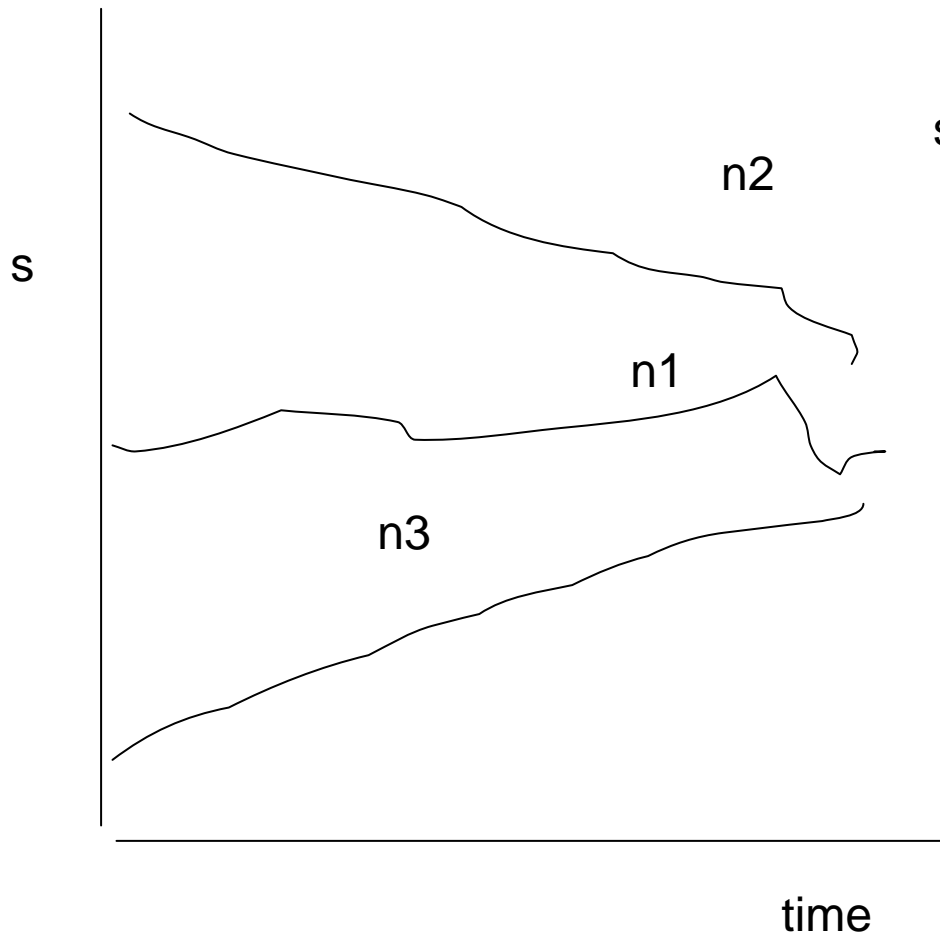


Cooperative Far sighted scenario

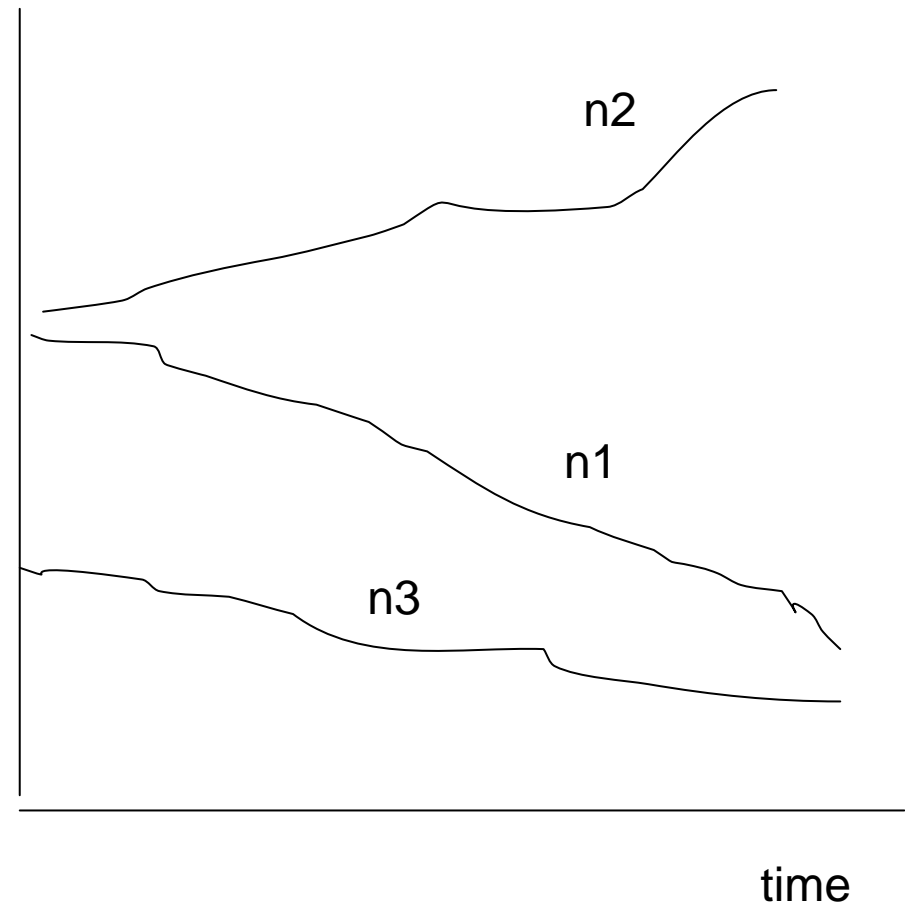


Proportion of population

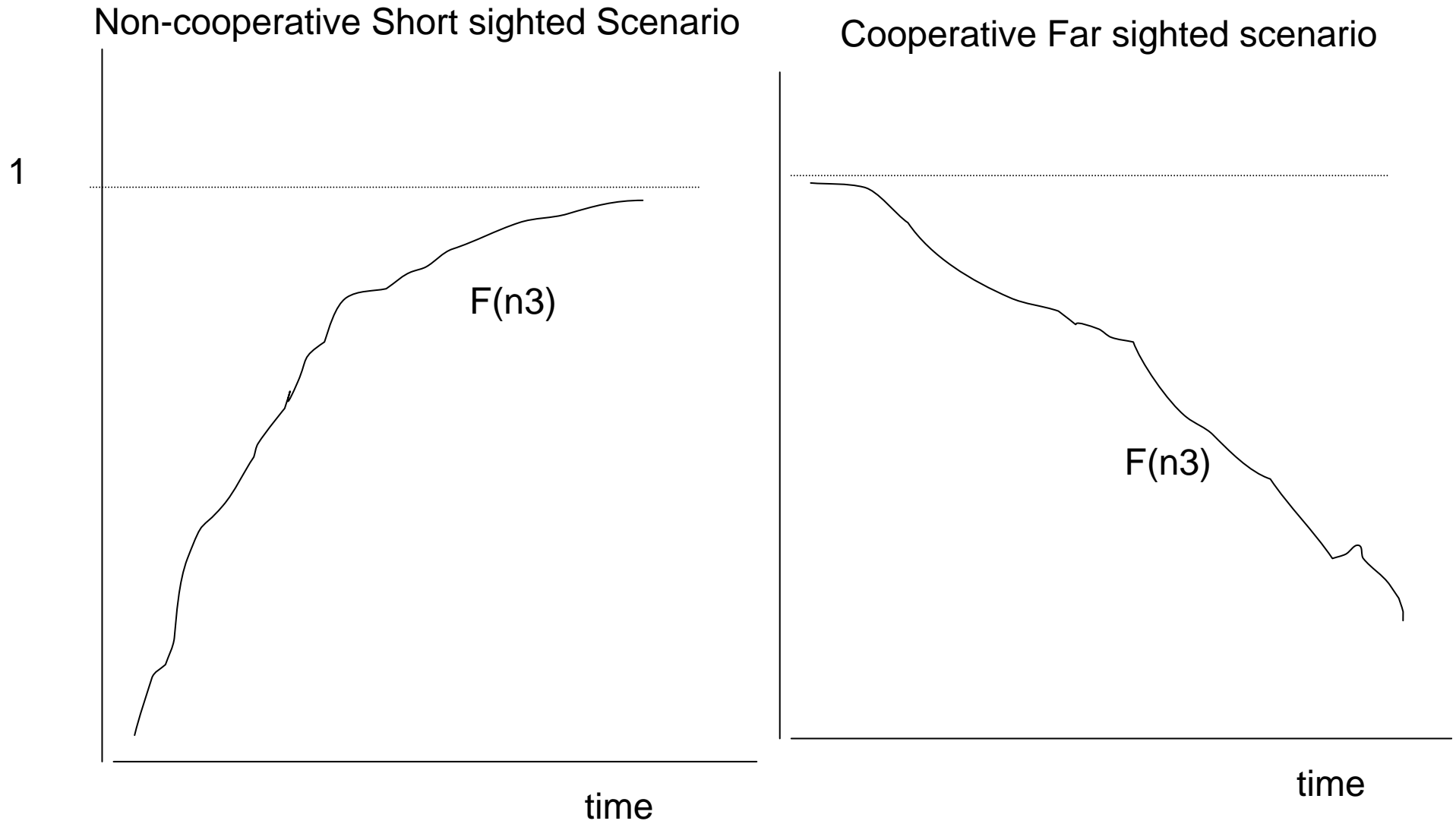
Non-cooperative Short sighted Scenario



Cooperative Far sighted scenario



Probability of revolt in two scenarios



Literature on conflict and growth

- Democracies have produced better solution for dynamic economies than communism because people are free to implement their ideas in production process.
- Schumpeter (1942) Downs (1957), Myrdal (1982), Sen (1983), Perkins (1994), Przeworski and Limongi (1993), Huber et. al (1993), Shleifer and Treisman (2005), Gunning (1986), Wintrobe (1998), Morris (2001), Paldam (2002), Verwimp (2003), McMillan and Zoido (2005)) .
- Gunning (1986), Bardhan (1997), Easterly (2001) for studies on riots and ethnic conflicts and Schumpeter (1942), Myrdal(1982), Sen (1983), Przeworski and Limongi (1993), Wittman (1989), Easterly (2001), Virwimp (2003) on models of development and democracy and Mehrling (1986), Besley and Coate (2003), Maskin and Tirole (2004) for models of political economy .

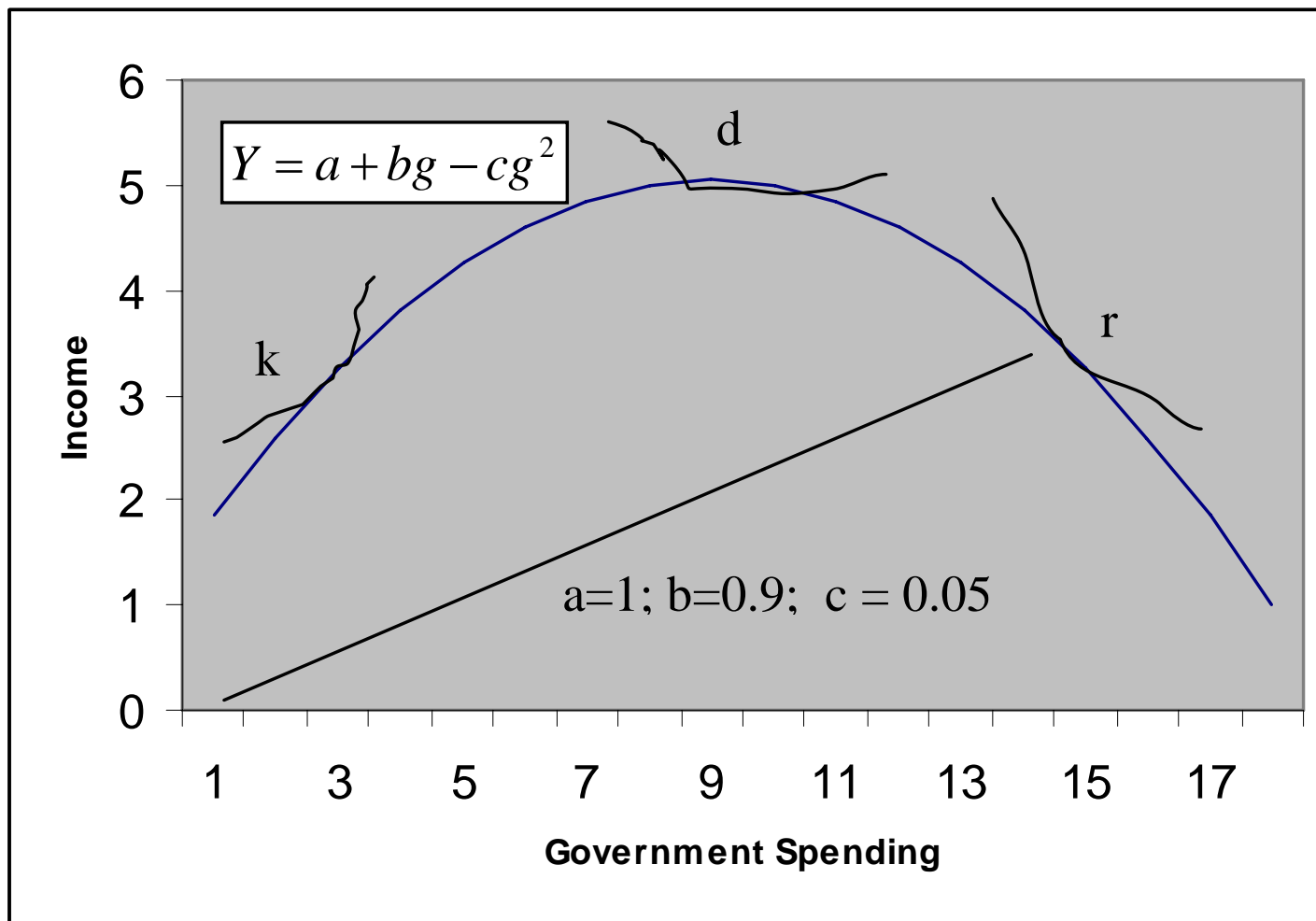
Nepalese Dilemma Before Revolution -1

- King wanted to increase his power, reduce influence of parties and rebels
- political parties wanted to form their own governments but have proved incompetent while they had an opportunity to do so, and
- Maoists want to eliminate both of them and create their own republic state.
- Conflicts and growing internal tensions have reduced investment and other economic activities,
- It has created hatred among people and demoralised investors and created sense of fear among consumers and producers.
- deterred donors to continue developmental activities in Nepal and frightened tourists from visiting Nepal.
- Cumulative effect of all these political disagreements led to a civil war and crises.
- Urgent to solve this problem.

Why did Maoists Idea Spread in Nepal ?

- Slow growth: limited economic opportunities.
- Power struggle and lack of economic policies for raising the living standard of marginal group.
- Corruption by politicians and bureaucrats.
- Lack of rule of law or true democracy.
- Ignorance among people - easily persuaded by cheap slogans.
- King's mistake to undo democratic forces.
- Terror, violence and threats.
- Influence of China and Chinese aids in 1960s.

Levels of Income and Size of Government under Kingship, Democracy and Rebels



Grow Nepal Contract -1

- Make “a grow Nepal contract” and put growth as the first objective of the political economic system.
- Make sure that fruits of growth are distributed more evenly among people.
- The parliament should decide a tax rate on income of the King and he should pay these taxes without any hesitation.
- The King should not be treated more than an ordinary citizen for tax purposes and he should be elected not hereditary.

Grow Nepal Contract -2

- a. Political parties should run their organisations in true spirit of democracy and have a system of punishing corrupt party officials according to amount of such corruption.
- b. Any citizen should be able to make a case against such corruption.
- c. Extra resources should be channelled for education, health care, job security of the marginal groups.
- d. Maoists should abandon their arms as well as the violence and terror as a means of achieving their political objectives. They should not threaten common people.

Grow Nepal Contract -3

- a. The nation should give each citizen an equal starting point by means of education and training and let their creativity and productivity prosper according to their abilities through competitive system and elimination of corruption.
- b. Each party should respect the individual freedom and commit itself to establish the rule of law, strengthen laws for property rights, establish liberal system of tax and transfer, ensure transparency in use of public funds and system of eliminating corruptions.















Similarities and Differences between the SPA and the Maoists

Seven Party Alliance (SPA)	Communist Party of Nepal (Maoists)
<ol style="list-style-type: none"> 1. An alliance of all major political forces, leftists, centrists and rightists, which have been in power in several occasions. They speak different languages of ideology about democracy, equality and nationalism and about the redistribution and on economic and individual freedom but are essentially same in practice. 2. Terminate absolute monarchy – though leaves to constituent assembly whether to keep a ceremonial king 3. They accept role of market to allocate resources, adopt socialist policies by spending on education and health and leaving industries for the private sectors. 4. They are accepted by the international community as true representatives of the Nepalese society. 5. Has developed internal democracy in the party to some extent but have not done enough to punish the corrupt officials. 6. Not efficient for implementing ideas in practice and mobilising masses for achieving economic and social objectives. 7. No clear focus on economic growth. 8. Each of them have been inefficient in the past in implementing ideas in practice when they had a chance. 9. This is a loose association of seven parties each with ambition to power. 	<ol style="list-style-type: none"> 1. A party that believes in armed struggle to achieve political means. It has used terrorism and violence and threats to fight against the parliamentary system. Motivated by the revisions of Mao of Marxist-Leninist ideas of class struggle, supremacy of the proletariat, mass participation, strict party discipline. 2. It aims to create a Republic of Nepal by terminating monarchy. 3. It has a very vague idea on how to operate economic policies. Accepts role of market for allocating resources but does not focus on central planning as found in many communist societies motivated by some obscure ideas of self-sufficiency and industrialisation. Its economic statements are contradictory and not well thought out. Yet to come up with a model. 4. It does not have widespread support from the international community until they relinquish arms, violent means to achieve political objectives. 5. Very little known about the internal democracy of the party but has support of committed party members. 6. Efficient in running the gorilla wars but whether it will be efficient in running the economy is questionable 7. Speaks the communist language to express ideas on economics and politics

Why did King Fail?

- King cornered himself while trying to corner democratic forces.
- 12 point agreement between SPA and Maoists for end of conflict and peace, absolute democracy and the end of autocratic monarchy
- Reliance on regressive forces.
- Does not know what is poverty and toils and troubles of people.
- Unrealistic dream of being absolute monarch or a dictator.

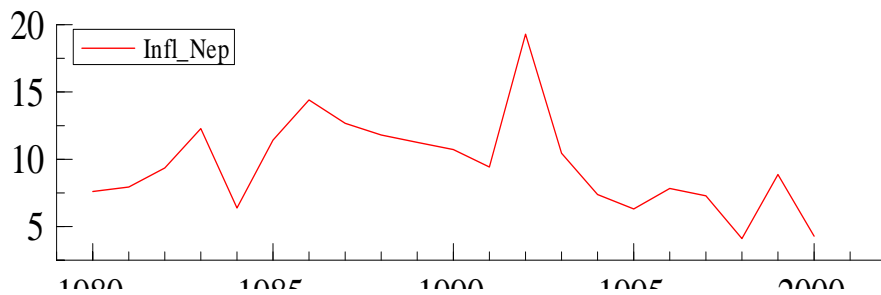
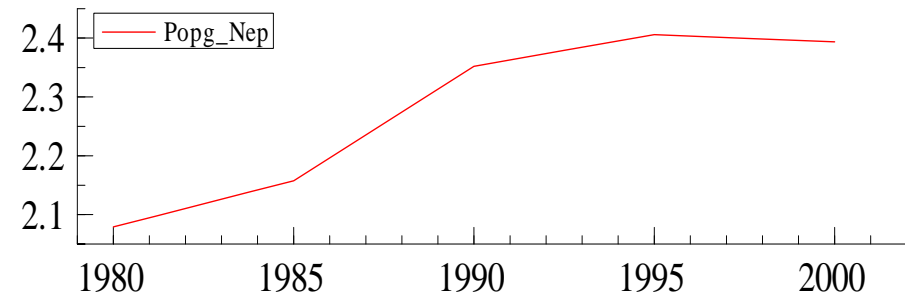
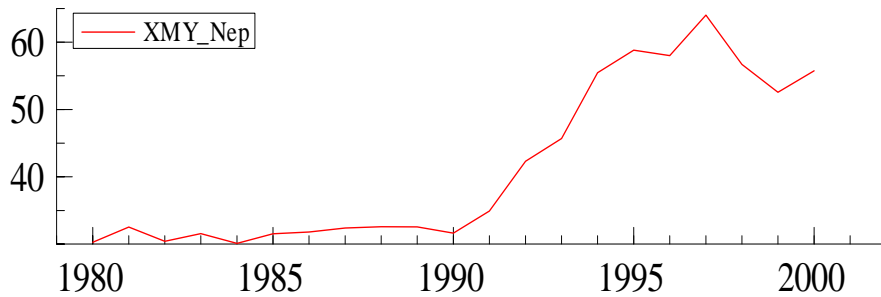
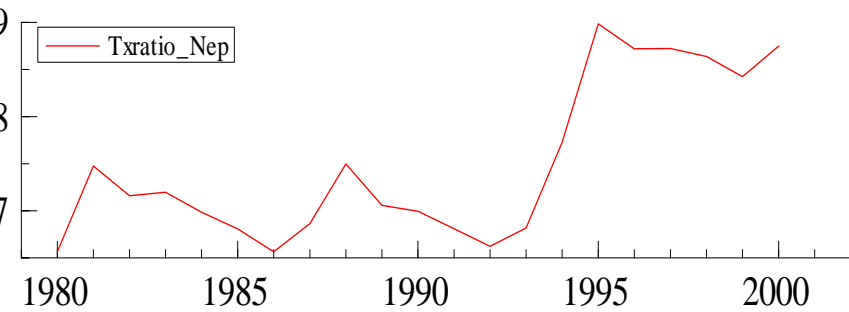
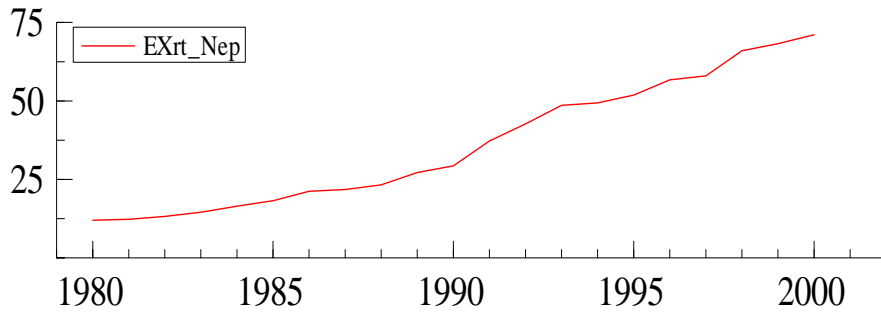
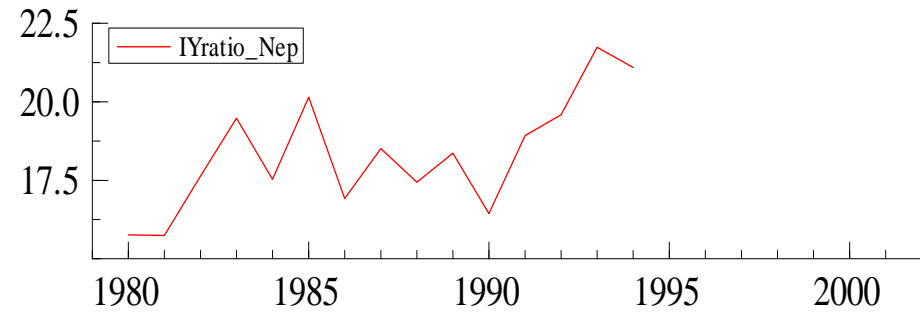
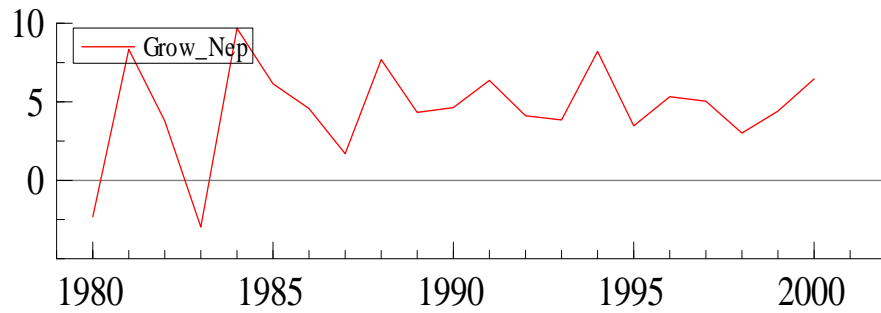
Many Why Questions?

- Why cannot Nepal start a really free school system up to the high schools?
- Why it cannot institute student loans to college and university level students?
- Why cannot it establish world class universities in mountains and hills using rapid changes in communication technology?
- Why cannot it focus on manpower development policies that let opportunities for all to develop their full potentials and creative abilities?
- Why should not create environments for talented individuals, both the Nepalese and foreigners, to work in Nepal with appropriate reforms in the labour market?
- Why should not it develop tourism more systematically by making Nepalese Himalayas topmost international standard in holiday destinations?
- Why should not it focus on developing vast potential hydro electricity for running industries?
- Why should not it promote the environment for transfer of technology from more advanced neighbours and other developed countries?
- Why should not it make rules and regulations clearly so that people start thinking that it is the original ideas and thoughts that count most in developing their prospects rather than copying foreign and obsolete ideas?
- Why should not it start developing financial and other sectors in which Nepal has comparative advantages?

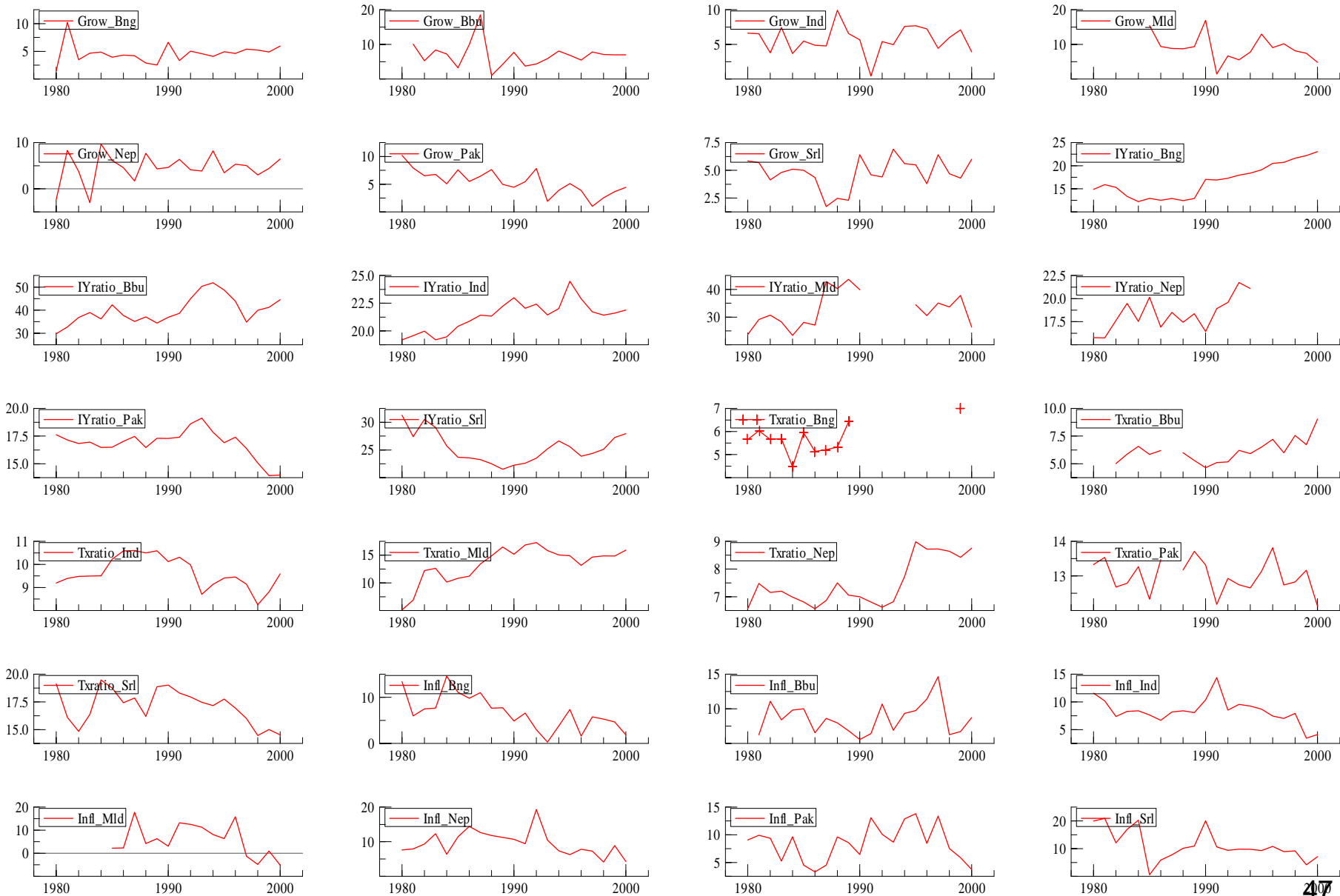
What kind of Constitution?

- Sovereignty of people
- Fundamental human rights
- Secular and devoid of cast and classes
- Representative democracy
- Growth and redistribution
- Rule based economic and social policies
- Elimination of corruption
- Open, liberal and enterprising and competitive market economy
- Check and balance
- Short, precise and comprehensive

Growth of Output, investment and tax ratios, inflation, exchange rate, trade ratio and population growth rate in Nepal



Growth, investment, tax and inflation in South Asia



Exchange rate, trade ratio and population growth rate in South Asia

