### **Environmental violation**...

### ... Must Not Be A Compoundable Offence

ONG-term greedy is a term that a Goldman Sachs Lapartner made famous, by way of self-definition. It is as good a description as any of making profits in a sustainable fashion. Lafarge displayed short-term greed when it violated the law in obtaining forest clearance for a limestone mining project in Meghalaya's Khasi hills, to supply raw material for its own cement plant in neighbouring Bangladesh. It described the mining site as a near-wasteland to obtain forest clearance, which turned void after it was established that the mining site had indeed been thick forest. By granting forest clearance to Lafarge's limestone mining operations in Meghalaya now, the Environment Ministry has done this country a disservice. By mining limestone without a forest clearance, the company had violated the Forest Conservation Act and possibly the Environment Protection Act as well. Now, under pressure from the French, Bangladesh and multilateral donors who bankrolled the project, the Indian government is trying to regularise the project. As a penalty, it has suggested the company pay some fines. The implications are unnerving. In part because if the government's proposal is accepted by the Supreme Court, it will create a precedent where any company can win clearances on the basis of misleading affidavits and later press for regularisation. And in part because the government evidently thinks it can apply India's laws selectively.

Accepting fait accompli in the matter of deforestation or violation of other laws intended to protect fragile ecology and vulnerable communities is a recipe for long-term pain and suffering. The culpable agency should be penalised, not rewarded with the proceeds of its crime. It is possible to take the view that the forests have, in any case, been irreversibly damaged at the mining site and that mining should continue. A viable solution that makes the polluter pay and, at the same time, protects the economic activity at stake is to levy penalties on Lafarge for its actions, expropriate the mine and auction it off to some other party, who can then supply limestone to the cement plant in Bangladesh. Such an option is, indeed, viable and superior to the sale of environmental indulgences

### The urban agenda Primarily A Planning Challenge

 $T^{\rm HE\ McKinsey\ report\ on\ India's\ urban\ challenge\ is} \\ \text{welcome} \ for\ highlighting\ a\ relatively\ neglected\ part\ of}$ the growth agenda but is probably off the mark on prescriptions. In calling for proactive policy to shore up revenues, institutional structures and dedicated funds for cities, the study is spot-on. But then to recommend a massive, China-style increase in investment in cities, so as to reap 'productivity dividend of urban living,' seems misplaced. What's suggested is that India's per capita annual spending in urban infrastructure rise from \$17 today the figure for China is \$116—to a steep \$134. Such a strategy, with the ballpark requirement estimated at \$1.2 trillion, would be needlessly costly, capital intensive and plain unwarranted. What India needs is more sensible urban planning, policies to release land for urbanisation in a manner that does not cause social or political disruption, and city design that eschews urban sprawl and associated energy consumption on commutes. We certainly need better allocation of resources for housing, reliable public transport and proper urban design, for instance to be able to walk across the road for work and recreation. But growth need not and should not be at high cost.

The McKinsey study projects demand for re and commercial space pan-India at between 700 million and 900 million square meters a year, 350 to 400 km of metros and subways annually, and between 19,000 and 25,000 km of road lanes as well. It adds that the targets are up to 20 times higher than actual investments in the past decade. The projections certainly seem a tall order in many respects. However, with forward-looking town planning, it should be possible to better manage urban demand and optimise infrastructure investment. As India picks up economic speed, we need to be in a position to scale up and boost urban infrastructure. We clearly need to have a proper policy on new towns that go beyond SEZs and manufacturing zones. We also need supply side reforms to better coagulate funds in urban spaces. The way ahead is to have a thriving market for long-term funds.

### **Rainbow coalition** Trashy Compromise In The Offing?

T HE brainwaves of eco-warriors are indeed changing the face of cities in the west, but a small event in a medium-sized British city could portend a national trend. The citizenry of the British city of Newcastle-under-Lyme, have been forced by their council to find space in their kitchens, balconies or backyards for a grand total of nine refuse bags — a silver-coloured slopbucket for food waste that then has to be tipped into a green outdoor bin, a blue box for glass, foil, tins and aerosols, a pink bag for plastic bottles, a green bag for cardboard, a white bag for cloth, a blue bag for paper and magazines, a brown-lidded bin for garden waste and a grey one for non-recyclable waste. The contents of eight of these receptacles of varied dimensions are carried away by three different trucks (instead of one) every fortnight while the ninth — food waste — is collected weekly. The result is obvious: pavements, front gardens and backyards that were once given over to those famed symbols of nationhood like roses and seasonal blooms, bronze ducks and stone garden gnomes, football goalposts or a paddle-pool, now display rainbow-hued garbage bags lined up and glistening in the summer sun or winter drizzle. The (green) thumbs-up must have been obtained from all sorts of authorities, but the local urban arts commission was surely not consulted. This marks a particularly dangerous trend because even the most draconian eco-measures find wide resonance these days and these garbage bags could march nearer home for us too.

The real worry, of course, is that the success of this experiment may spawn others in Britain very soon indeed, leading to unending vistas of green wheelie bins and trashbags from London to John o'Groats. Reason: the Newcastle-under-Lyme council is a coalition between the Conservatives and the Liberal Democrats — a political merger now being seriously contemplated nationally, come the results of the general elections of May 6!

# Bankrupt theology of deregulation

It is inconceivable that the IMF would have failed so miserably to detect and call attention to the vulnerabilities piling up in the US mortgage market had these occurred in a developing country, says **Hector Torres** 

OW that the global financial crisis is abating, it is time to take stock of our mistakes and ensure that they are not repeated. Beyond regulatory improvements, preventing payment incentives from rewarding reckless risk taking, and building Chinese walls between originators of securities and rating agencies, we need to discover what made this crisis so difficult to predict.

The International Monetary Fund is our global watchdog, and many believe that it failed to foresee the crisis because it was distracted or looking in the wrong places. I disagree. The problem is that the IMF was unable to interpret the evidence with which it was confronted.

I served on the IMF board in June 2006 when it discussed its annual review of the United States. The staff "saw" the relaxation of lending standards in the US mortgage market, but noted that "borrowers at risk of significant mortgage payment increases remained a small minority, concentrated mostly among higher-income households that were aware of the attendant risks.

A few months later, in September 2006, just 10 months before the subprime mortgage crisis became apparent to all, the Global Financial Stability Report (GFSR), one of the IMF's flagship publications, stated that "(m)ajor financial institutions in mature... markets (were)... healthy, having remained prof itable and well capitalised." Moreover, "the financial sectors in many countries" were supposedly "in a strong position to cope with any cyclical challenges and further market corrections to come.

The IMF's radar started blinking only in April 2007, virtually when the problem was already hitting its windshield but still with little sense of urgency. Clearly the fund's surveillance of the US economy was ineffective, and its multilateral surveillance of financial markets no better. Admittedly, the IMF was not alone in failing to interpret the underlying facts that triggered the crisis, but that is little consolation.

Before the crisis, the IMF's best-



known function — lending to countries with balance-of-payment problems was becoming irrelevant. Many emerging markets preferred to self-insure by accumulating reserves rather than borrow from the fund. Ironically, this was leading the IMF to focus on its supervisory role. So, in searching for the causes of the IMF's failure, we can rule out distrac tion by more urgent matters.

The fund normally expects that problems come from the usual suspects — economically volatile developing countries — but this time the crisis was developing a few miles away from its headquarters. Perhaps this proximity was at the root of the IMF's failure to interpret the evidence right under its nose.

If so, it is a failure that raises two key questions. First, is the fund's governance structure suited to exercising arms length surveillance of its main shareholders? And, second, did ideological blinders prevent the IMF from acknowledge ing that deregulation could contribute to a disastrous outcome?

It is inconceivable that the fund, with its qualified and dedicated staff, would

have failed so miserably in detecting and calling attention to the vulnerabilities piling up in the US mortgage market had they occurred in a developing country.

, FOR one, am not happy with the way  $oldsymbol{1}$  in which "quotas" to the IMF are calculated, but I have to admit that exchanging money for votes is a perfectly adequate governing structure for a lending institution. But it is not adequate for an institution that is meant to exercise arms-length surveillance of its members particularly its most influential member, whose domestic policies have global

sources, the more influence it gets.

systemicimplications That "money-for-influence" governance structure indirectly impairs the fund's capacity to criticise its most important members' economies (let alone police compliance with their obligations) And, as I have witnessed several times, if the IMF staff ever do become too candid in their criticism of powerful members,

the target governments use their leverage to water down the public communiqués issued by the board.

Let us now consider the second question — whether the fund suffered from a mindset that blinded it to the causes of what was happening. As early as August 2005, Raghuram Rajan, the IMF's chie economist at the time, was warning of weaknesses in the US financial markets Rajan saw that something potentially dangerous was happening, warning that competition forces were pushing financial markets "to flirt continuously with the limits of illiquidity" and concealing risks from investors in order to outper form competitors.

Perhaps most revealingly, though, Rajan nonetheless optimistically argued that "(d)eregulation has removed artificial barriers preventing entry of new firms, and has encouraged competition between products, institutions, markets, and jurisdictions." In other words, he clearly believed that regulation created "artificial barriers," and that "competition between jurisdictions" — that is, between regulators—was to be welcomed.

Such beliefs come naturally to those But power in the IMF currently follows committed to the view that markets per form better without regulation, and Rathe logic of its lending role. The more money a country puts into the pool of rejan's statement is a good illustration of the IMF's creed at the time. And it was this boundless faith in markets' self-regulatory capacity that appears to be at the root of the fund's failure to find what it was not looking for.

> There are now encouraging signs of change at the IMF, but this should not reassure us. As the political economist Fred Block has noted, "societies invariably draw back from the brink of full-scale experimentation with market self-regulation." Unfortunately, this also makes self-regulation a faith that is very difficult to dispel, because its priests can always claim that its failures result not from theological bankruptcy, but from insufficient orthodoxy.

(The author is a former Executive Director of the IMF and a former chair of the G-24 Bureau in Washington, DC)

# **Citings**

CONFLICT OF VISIONS Thomas Sowell

NE of the curious things about political opinions is how often the same people line up on opposite sides of different issues. The issues themselves may have no intrinsic connection with each other. They may range from military spending to drug laws to monetary policy to education. Yet the same familiar faces can be found glaring at each other from opposite sides of the political fence, again and again. It happens too often to be coincidence and it is too uncontrolled to be a plot. A closer look at the arguments on both sides often shows that they are reasoning from fundamentally different premises. These different premises — often implicit — are what provide the consistency behind the repeated opposition of individuals and groups on numerous, unrelated issues. They have different visions of how the world works. It would be good to be able to say that we should dispense with visions entirely and deal only with reality. But that may be the most utopian vision of all.

Reality is far too complex to be comprehended by any given mind. Visions are like maps that guide us through a tangle of bewildering complexities. Like maps, visions have to leave out many concrete features in order to enable us to focus on a few key paths to our goals. Visions are indispensable — but dangerous, precisely to the extent that we confuse them with reality itself. What has been deliberately neglected may not in fact turn out to be negligible in its effect on the results. That has to be tested against evidence.

### **CHATROOM**

### Save cricket

■ IF BCCI is the richest sports body in the world, it is because cricket in India is working along the lines of an industry. Cricket is a way of life and religion for vast majority of Indians. There was the Indian Cricket League conceived by the former Indian captain Kapil Dev which faced the onslaught from Indian Premier League (IPL) the brain child of the BCCL and eventually died. The dramatic rise of IPL pioneered by Lalit Modi in the last three years and the pace at which it has gained popularity has left one **BLINKERS OFF** 



This training is a major HR initiative...we will be telling you 'How to live within your salary'

gasping for breath. If cricket is to retain its pristine glory then BCCI and all involved must take a broader view of things and decide quickly about the future of IPL. Srinivasan Umashankar

NAGPUR, APRIL 23

### RBI on right course

■THIS refers to debate 'Has RBI addressed economy's concerns? (ET. Apr 22). Both the writers agree that the RBI has managed economy's concerns well. considering its multiple objectives. During interviews on main business channels, the RBI governor had explained it.

He made it clear that his focus is to support growth and at the same time manage demand-driven non-food inflation -4.7% -in March 2010. Credit growth is picking up but private consumption is yet to pick up. Presently, there's adequate liquidity even to push the government borrowing programme. In 2009-10, net account deficit marginally but rupee spurted by 18%. If needed, he will be resorting to its sterilisation and use other monetary measures to tackle rush of capital inflows. The bank has no control over food inflation.

D B NAIK Mumbai, 22 April

Letters to the editor may be addressed to editet@timesgroup.com

# 'India must try to attract top B-schools'

Balachandran is the JL Kellogg distinguished professor of accounting and information management at Northwestern University, USA. He is one of the key persons behind the inception of the Indian School of Business (ISB), Hyderabad, as well as the founder and dean of Chennai's Great Lakes Institute of Management. Prof Balachandran talks about challenges facing management education, the need for India to market itself globally and his take on Union HRD minister Kapil Sibal's new initiatives.

"Management education has missed the burning issues of business relevance and become more about mathematical elegance and theoretical knowledge. Profitability has turned into profiteering and instant gratification dominates rather than long-term profitability. The year 2007-08 marked the black hole days of business education." With basic business models having clearly failed, leading management schools including the likes of Harvard and Kellogg are already thinking of the next model, he points out. "In less than two years, you will see the results." And in that, India will take a leadership role. "Take any of the top B-schools. At least 10 faculty members are from India The next dean of Harvard Business School will be an Indian. It's likely that the next business model may come out of India or at least from someone of Indian origin."

"It's all about responsible freedom. The new model should incorporate elements like ethical leadership, transparency, investor protection, corporate governance and experiential learning. It cannot just be about a bunch of financial and marketing lessons. It's not the physical infrastructure,



### INTERACTIVE BALA V BALACHANDRAN

but the human infrastructure which counts. Make money but don't harbour greed. Doing a good thing is a joy. Essentialy, it's the Bhagavad Gita principles that you should exercise in management. Karmanya Vadhi Karasthey Maa Paleshu Kadhachana (You do your duty; do not look for the fruits of labour).

Kapil Sibal's new initiatives get his vote of approval, especially the foreign universities bill recently approved by the Union cabinet. "The minister's idea of bringing in well-recognised foreign schools is a good one. It will open up the world and effectively lead to competition intensifying." What are the parameters that need to be kept in mind in this regard?

top business schools. You miss the bus if you end up attracting weaker or secondrate universities. There is a clear ranking of every university and the ones that do not make the cut, need to be weeded out. You cannot approve any and everybody.

"It would be good if India can attract the

In the US, he points out, the faculty con-

that is far from the case in India. "If I say, we are going to India, they will say: 'Why India? Why not China or Latin America?' So, Indian faculty in those institutes need to push the initiative.

dents or projecting its educational institutes globally, how can India market itself better? "I think business education in India has some really superior values. The price is right, the quality is right. But the marketing is wrong. We have to showcase our curriculum and our experience. We need to participate in MBA fairs and conventions across he world and market our strengths.'

While on the subject of strengths, all top B-schools in the world boast of Indian faculty. Yet back here in India, management education is grappling with a serious facul-

'What happened is that the number of business schools has indiscriminately increased. The pool of faculty is the same, each trying to steal from the other. We need the seed farm and only then the wheat farm. You cannot eat the seed wheat. So seed farms in top schools have to be created. We need to look at higher education and foster more PhDs doing relevant teaching and research. Even while opening up to foreign universities, certain conditions can be imposed.

If they are keen to come in at the undergraduate level, an arrangement can be worked out wherein they take some Indian students for their PhD programme. That apart, the incentive system in India has a long way to go. Indian faculty members are amazing,

## Oil: A tale of two cartels

AST week the price of oil once again breached the 18-month barrier to touch \$87, sparking fears of another oil price spike, widely anticipated since the Davos face off between Europe's oil majors and the Saudis early this year.

The price spurt of oil followed the US energy department's decision to raise stock by an additional two million tonnes creating record stockpiles of 356.2 MT, a 7% rise in US inventory over the five-year average stocks. The build-up was due to International Energy Agency's consumption forecast of 86.6 million barrels, up by 1.8% from last year. The IEA's revised estimates was possibly due to a sharp 28% jump in imports of oil by China in January, a reaction to "peak oil" fears set off at Dayos.

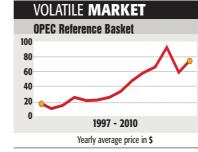
Tony Hayward, group chief executive of British Petroleum, made heads turn at the World Economic Forum in Dayos, forecasting a "supply challenge" for the energy industry, which would have to increase output to 100mbd — a new peak for oil from the current capacities of 83-84mbd. He was strongly backed by Mr Peter Voser. CEO of Royal Dutch Shell, who added to the scare stating that the industry would have to find up to \$27 trillion to fund the investment in oil over the next 20 years.

Group Europe's claim was promptly refuted by Khalid al Falih, Saudi Aramco's chairman and chief executive. Dismissing claims of a shortage, the head of the largest oil producing corporation in the world said, that a third of his capacity was currently idle, and ready to add four mbd on demand. He hit out at the price volatility and "misleading" rhetoric, that the world was weaning itself off fossil fuels, saying this did not give producers confidence to keep investing in production. "We don't believe in peak oil", he told reporters later. dismissive of Europe's stark concerns.

Ever since the year 2000, oil prices have been volatile under the influence of two power groups, the producer's cartel the Opec and the trading cartel the ICE. The ICE cartel includes Europe's oil majors BP,

### **GUEST COLUMN**

**SANDIP SEN** 



- Ever since the year 2000, oil prices have been volatile under the influence of two power groups, the producer's cartel, the Opec and the trading cartel, the ICE
- Though the Opec cartel still controls 55% of the world's production, and the ICE cartel less than 15%, price volatility has been dictated by the trading cartel
- China and the US stockpiling early, will ensure that their consumers are hit last, should prices move above the \$100 mark

Shell and Total and the big banks — Goldman Sachs, Morgan Stanley, Society General and Deutsche Bank. Though the Opec cartel still controls 55% of the world's production, and the ICE cartel less than 15%. the price volatility has been dictated by the trading cartel.

This has been due to the strategic control of the supply chain feeding Europe and the online trading and swapping of future contracts of Brent Oil (North Sea) and WTI (Texas) largely controlled by this cartel and actively traded at the ICE Com-

modity Exchange in London. OECD stocks during the last 10 years have risen from 840 million barrels to 1,020 million barrels, due to this volatility,

despite a 5% drop in consumption. Over 80 million barrels of oil are being hoarded in super tankers around the world today. as per Frontline which owns the largest tanker fleet worldwide.

Morgan Stanley, the largest stockist of oil today, along with Goldman Sachs, BP, Shell and Total own pipelines, offshore storage and terminal stocking facilities in middle east, Africa, Europe, and the US that are used to soak up excess oil stocks and quickly dump back the same to create a market volatility

Termed famously as the London Loophole, by Senator Feinstein, each barrel of oil is reportedly swapped 20 to 30 times at the ICE Exchange through high-speed computers before hitting the retail trade at substantially higher prices. The numbers at ICE are mind-boggling as a result of this round trip swapping, with \$7 trillion transacted in CDS contracts during the last quarter, as per their website. The Opec oil, having much larger physical volumes, but not active at the exchange, merely follows the Brent Oil price trends at the futures market, in a classic case of the 'tail wagging Europe's oil majors build speculative

pressure on the commodity markets with the help of hedge funds, commodity speculators and banks. According to a recent Mackenzie report, Europe's falling oil output at North Sea has been one of the reasons of this intense speculative activity around Brent Oil. In the year 2009 only eight oil and gasfields in North Sea with a total of 140 million barrels were commissioned against 600 million barrels 'new oil finds' for previous years. Group Europe's scare mongering on

peak oil at Davos is possibly a part of a strategy to raise prices to compensate for the volume losses. China and the US stockpiling early, will ensure that their consumers are hit last, should prices move above the \$100 mark

(The author is an international business consultant)

# Savour success, thus enhance it

seven 'failure traits', (as conceived of by Dr Maxwell Maltz in his book. Psychocybernetics) enables the seeker to minimise failures in life, analysis of the seven 'success traits' enables him to understand these better for beneficial results.

The first of these traits, as elaborated by Dr Maltz is 'sense of direction'. He stresses on moving stems from remembering past

forward to particular objectives and goals evolved for oneself and observes, "Functionally, a man is somewhat like a bicvcle. maintaining its poise, as long as it goes forward, becoming shaky once it is balanced still". Indeed, it is neces-

sary to develop a "nostalgia for the future", with

something to work and hope for! About the second trait, 'un-

derstanding', Dr Maltz points out to the fact that each person is made in his own way and thus would act and react differently. Adding opinion to facts, attributing motives, jumping into conclusions, 'rationalising' things—these would all take back seats, when this understanding and maturity reign.

Confronting, instead of dodging problems, is verily 'courage the third 'success' trait. Risking failure while moving forward is better than standing 'on the spot', because even mistakes can

TUST as understanding the be corrected by the "corrective mechanism" within, Similarly, the trait of 'charity' is a sublime manifestation, conceiving evervone as a "child of God, a unique individuality, which deserves some dignity and respect"

> 'Esteem', the fifth virtue, is that fulfilment, "an appreciation of yourself for what you are" 'self confidence Similarly,

> > occasions of success too and not just failures, thus enabling the 'success mechanism' to take over. Dr Maltz prescribes "Use errors and mistakes as a way to learning — then dismiss them from your mind".

The last of the 'success traits' is 'self acceptance' — on accepting and identifying one's faults and errors as well as strengths and assets. Dr Maltz concludes on this self acceptance, "Accept vourself. Be yourself, without turning your back upon it or re-

fusing to recognise it"

Analysis by Dr Maxwell Maltz of the 'success mechanism' enables the seeker first to understand various issues concerning accomplishment of success. Savouring this feeling also thus enhances the experience. This verily, obtains more and more success, for, nothing

succeeds like success! ■ K Vijayaraghavan

trols the functioning of the institutes, but

When it comes to attracting foreign stu-

ty crunch. How does one tackle this?

but not given the right incentive."

Sreeradha D Basu