

## Shaping Tomorrow's Economy Challenges and Choices for Nepal

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### Introduction

The goal of an economy is to increase the standards of living of people by sustainable use of resources and transformation of society toward a more humane order. The tomorrow's economy deems humans as "species-beings," to use the concept of Ludwig Feuerbach, considering that their collective emancipation rests on common life of all species rather than exclusive human welfare. Economy is not an autonomous closed system completely separated from the rest of the sub-systems of society, the environment, technology, politics and morality; morality because it has to ensure the well-being of future generation also. Development is vitally linked to the resilience of the ecology, economy, polity and civil society, all functioning in a spirit of harmony to promote shared objectives (Nyerere et al. 1992:274). The productivity system of feudalism, capitalism, and imperialism based on vertical division of labor and specialization, however, does not offer any rational option for the solution of systemic problems. This system has created wretched working conditions for the masses and privileges for a few elites. It survived at the expense of democratic rights of people for self-governance as its superiority was based on taking from the poor, and using public resources to build up private fortune, not enlarging apparatuses for the production of basic public goods, and democratic equity for the poor.

The revolution in global communication heightened awareness about its negative consequences as it did not bear the costs of increased poverty, inequality, illiteracy, ill-health, erosion of public security, and ecocide as well as fulfill demand for a rapid reconstruction, reconciliation, and development of post-conflict societies. The positive economic outcome (positive externality) presumes an expansion of opportunities for poor peoples' wealth, incomes, and living standards, and adaptation to climate change by restoring earth's soils, forests, biodiversity, and eco-systems. Now, *ego-centric economy*, based on individual impulse over shared benefits, capital accumulation, economic growth, and depletion of non-renewable resources and nature, has been contested by attentive public as it has neither improved the quality of life nor valued women and nature's service not even offered win-win solution of economic problems. As the tabulation of life-cycle by economic calculus has failed to account ecological, social, gender, and inter-generational costs, new indicators of progress have been identified beyond the classical GNP-measured economic growth. It entailed the vision of transformation of institutions, forms of knowledge, rationalization, and technological mutations of the above systems. This transformation, however, does not come from within their leadership which had fostered unequal social, economic, and political relations in society. Transformation comes from those leaders who continuously learn to manage problems collectively with citizens, and use democratic principles to evaluate, and reform the existing rules, institutions, and conditions of people. Arising from genuine grassroots movements from outside the establishment, the transformative leadership challenges the *homocentric economy*, an economy that serves the same class of privileged elites at the exclusion of ecological and people's needs, to create an alternative sustainable vision, and institutions that mobilizes the commitment of people for ecological, gender and social justice.

With the gradual removal of knowledge and technological gaps and privileged status of elites by democratic impulse, the tomorrow's economy will combine both anthropocentric and ecological concerns by changes the rules of the game from vertical command and control system of a few to participatory decision-making, economic growth to equity, free market to coordination of market for the allocation of social surplus in meeting basic needs, minimal role of the state to increased public role of state in security, collective goods, and upliftment of marginalized, and centralization of profits to redistribution and expansion of public goods and services through polycentric institutions. It is also simplifying the relationship of economic actors with the people at the flat level to build proper economic security (adequate food, cloth, housing, health care, income and pensions).<sup>1</sup> The tomorrow's economy moves beyond boss-employee practices to self-employed entrepreneur, and embraces partnership culture, co-production, and joint stakeholding in the mode of operation so that each partner has an incentive to monitor the conduct of others. "Collaborative relationships between top management and workforce are more productive and profitable"(Grieder, 2009:14). It allows the stakeholders of economy to participate in a regular dialogue, communication, and contextual learning distilled by the culture of community. It is the culture that "provides the key to *path dependence*—a term used to describe the powerful influence of the past on the present and future" (North, 1996: 349).

This path dependence helps to evolve a systemic thinking—"thinking in terms of relationship, context, patterns and processes," for the economy of tomorrow marks a "transition from an economy of goods to an economy of service and flow" in which "matter cycles continuously, so that the net consumption of raw materials is drastically reduced" (Capra, 2004:231). As the waste is recycled into an economy it opens up a new possibility to control emission, regenerate the atmosphere and balance core-periphery relationships within the state. The need for ecological sustainability has brought a reflective transformation in development thinking and values "from linear system of resource extraction and accumulation of products and waste to cyclical flows of matter and energy; from the focus on objects and natural resources to a focus on service and human resources; from seeking happiness in material possessions to finding it in nurturing relationships" (Capra, 2004:232). Accordingly, green growth would be built on energy saving and efficiency, dematerialization of production, and substitution, for example, of fossil fuels by renewable energies and non-renewable raw materials (FES, 2010:22). Technological progress offers new possibilities for reversing the current vicious cycle of environmental deterioration, poverty, and conflict into virtuous cycle of eco-balance, well-being and peace.

Developed countries have higher capabilities than developing countries in manufacturing compared to agricultural and service sectors.<sup>2</sup> Now, many multinationals,

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<sup>1</sup> This economic security involves "universal access to good quality education, health care, and adequate and secure retirement income—while encouraging private innovation and job creation; to regulate the financial markets with the aim of channeling financial institutions to do what they are designed to do in capitalism: allocate resources efficiently by providing credit for production, innovation and long-term growth; and to redesign the architecture for management of international finance so it promotes economic growth and political stability" (Milberg, 2009:46).

<sup>2</sup> Alexander Hamilton asserted its importance this long ago, "If the United States wanted to be a country of consequence it would have to spend public funds to encourage the emergence of manufacturing and to protect nascent domestic industries from foreign competition" (2005:85).

the emissaries of the industrialized countries with their manufacturing powers, like previous empires, are less inclined to take the burden of public welfare and environmental protection and more inclined to seek the freedom of capital above the interest of society. Their companies are moving in those low-productivity countries where they can easily outsource the jobs to exploit workers with low wages, labor market flexibility, and hire and fire, weakening of social protection, and use of scarce arable land for commercial farming for export thereby creating food crisis for natives, and contaminating the environment. Divided trade unions and weak states make it difficult to tax, enforce laws, and regulate against rights abuser who easily hide behind the borders, and evade corporate social responsibilities. This means the political economy of labor movement will continue around a bargaining for the implementation of framework agreements in transnational spaces, decent wages based on global labor and employment standards, better working conditions, dignity of work, social security, less pollution, and life-choices. In other words, the alignment of labor movement with global social interest will bring the importance of *eco-centric economy* in focus with labor, gender and nature-sensitive technologies.

Power and poverty at international and domestic levels are linked to entrenched economic interests and concentration of economic power is a threat to social values and healthy competition. Faced with the threatening accretion of global problems that defy national solution, the state left to its own means is ineffective to exercise its sovereignty. Geo-economic regions are emerging as viable units of political action in the global context. Multinationals, created by powerful states, have formed horizontal alliances across countries with native business classes and authoritarian states for production, distribution, financing, and profit, consequently, weakening the accountability mechanism of the state-created vertical structures of power, hierarchy, and discipline, and the collective identity of labor to bargain. As most of workers are employed on a part time, contractual or daily wage basis their ability for free collective bargaining for fair share of wealth they themselves created is limited. Without a global, regional, and national social contract the demands of developed countries for cheap goods at whatever cost to human life, dignity and ecology offer no escape from their economic backwardness. In a situation of unstoppable decline in agriculture, and industrial production, the struggle of the poor for human rights and livelihoods will continue in the future. The great challenge of tomorrow's economy is to change the fundamental value pattern of today's economy solely based on profit maximization of business elites to make it compatible with the enlightened public demands for human rights, democracy, social justice, ecological sustainability, and peace.

In Nepal, democratic transformation and constitutional moment have generated legitimate hope of people for improved standards of living. But the basic conditions of life for the majority of people remain the same despite the declaration of Nepal a secular, federal democratic republic. Each political change distributed power and resources only at the super-structural level and leaders sought to substitute the impersonal state with their personalized parties, clients, and networks. Owing to difficulty in democratizing elections and other sources of legitimacy, national political competition has become a game of unequal players. Intractable internal contradictions within political parties have blocked the democratic transformation, and failed to inspire people to engage in open-source problem solving. As a result, development has been weakened by corruption shielded by politics. This amoral trend will eventually minimize the resources for productive investment and intensify hunger, famines, and resource conflicts. Weak economic performance of

leadership continues to diminish the possibility to stabilize democracy, sustainable economic development, and positive peace. Four factors are responsible for this: cohabitation of new elites with the old for the sharing of spoils has closed the possibility to revitalize the national economy; insufficient bottom-up pressure for democratic control of elites undermined leaders' interest to navigate to higher democratic order for social capacity, constitutional stability, and positive change; weak base of the resources of modernity to sustain the political system produced protracted instability; and easy international legitimacy to elite rule due to their converging economic and strategic interests, and support for single identity oriented clientelistic politics undercut leaders' will to foster good governance. These factors have marred the possibility to diversify Nepalese economy offered by its topographical landscape, resource endowment, and comparative and competitive advantages<sup>3</sup> to overcome the problem of underdevelopment of labor surplus economy, and optimally utilize full value of the nation's resources.

Nepalese are suffering from the continuation of a syndicated regime in economic and political spheres whether the emphasis is laid on the market or the "socialism-oriented economy" by political ideologues. The structurally coupled political economy provides less freedom for labor market integration, dynamism of a single national economy, competition, entry of genuine actors, service efficiency, and class-bridging strategy. Privatization of education, health, and other public goods amounts to deficits in their overall quality as it marked a revolt of elites against the egalitarian effects of democracy. The decision-makers' over emphasis on foreign aid, foreign direct investment, remittance, and tourism reflect their bunker mentality, no reading of the world markets' proneness to crisis afflicting these areas. The continued political and institutional failure, personalized regimes, assertion of subsidiary identities, anarchy of armed groups, and weak civil society have decreased the state's capacity to create enabling environment for business and investment, and ratcheted up the decomposition of polity. The parliament, universities, and the public sphere do not encourage informed debates about competing ideas. The ability of civil society to raise public demands is much higher than the capacity of state to fulfill thus rendering the government face credibility gap. Nepalese planners and leadership emerged from the habitual rote learning of ideas, and bloated promises lack both social reflection, and an analytical capacity to problem-solving adapted to the country's post-conflict challenges, and exercise a new vision that helps the Nepalese to deal with bitter reality of today. Heightening of security concerns of both neighbors, India and China, which are in many ways entrepreneurial and forward-looking, casts doubt whether Nepali state and leadership will be capable to pursue effective economic diplomacy or suffer the wash back of both neighbors. In either case, it needs their cooperation to confront the looming ecological, economic, and geopolitical crises.

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<sup>3</sup> The Himalayan region offers scope for eco-tourism, herbal plantation, animal husbandry, production of fruit juice, mountaineering, etc; the hills and the mountains offer prospect for agricultural and service sector development, management of forestry, industrial development in big valleys, solar, wind and hydro-power development; and the Tarai offers scope for agricultural, industrial, commercial, and educational development, etc. Utilization of hydropower development for internal development and export, and investment of money earned through remittance in alternative energy, infrastructure development, communication, and transportation grid, and supply chains are essential strategies. In the absence of infrastructure one region cannot be linked to other regions.

### **Is Economic Vision becoming System-Sensitive?**

*Homo economicus*, home of economy, is concerned with the fulfillment of basic needs by restructuring the nature of work. Economic stability at global, regional, national, and local level rests on incentives of sharing the gains at each level. Each civilization has fostered its own conception of economic virtues. Hinduism fosters family and community values, pooling of resources, and functional specialization for the accomplishment of *artha*, economy. Protestant ethics of hard work and frugality lays stress on capitalism as a vehicle of economic progress; Confusion economy emphasizes the essential traits of economic dynamism, honesty, hard work, social discipline and harmonious society, and Buddhism on the golden mean between the satisfaction of human needs and nature's capacity for resilience and sustainability. In extreme form economy "reflects a vision of our species as one that relies on self-interest to obtain the maximum personal good at the lowest possible cost" (Christakis and Fowler, 2011: 220).

Adam Smith and J. S. Mill, the proponents of *methodological individualism*, fostered the notion of market as merely a sum of individuals' motivation to supply or demand a good influenced by needs, expectation, and values of the object. They advocated that minimal government intervention ensures economic efficiency. This expression underlines "aristocratic view of society manifested in the class-centered orientation" (Heilbroner and Milberg, 1997:118) as market is not politically neutral; it imposes ecological, economic, social, and political costs on particular groups and societies, so that in relative terms, some benefits more than others (Gilpin, 2005: 21). Stiglitz argues: "Adam Smith's invisible hand is invisible, it does not exist" (2006:4). Their opponent *methodological holism* articulated by Karl Marx postulated the theory of class consciousness in action considering that class cannot be reduced to individuals' choice by disassembling them into fragments. His political economy emphasizes the collective over the individual and de-commoditizes the functions of land, labor, and capital for the emancipation of people from the tragic consequences of alienation, necessity, violence, and social conflict. Marx treated human beings both as a part of and separate from the natural world. His proletariat is, however, fragmented now into white, blue and green collar workers, dispossessed, professionals, and self-employed with incompatible interest constellation owing to new social stratification induced by technology and modernity. John M. Keynes' macro-theory opposed both discourses and laid the foundation for a third way, *government* as a motor of economic development to counter market failure without eliminating the benefits of decentralized incentive-based processes. He developed an 'efficiency' reason to care about income distribution, equality, and investment in public goods (Gourevitch, 2009:6).

Keynes having relatively broader worldview was engaged in a dialogue with statesmen to transform the dysfunctional system created by industrial civilization which had "class-blind democratic political values" (Heilbroner and Milberg, 1997: 118). He believed that economic stability requires public sector intervention to liberate the people and countries from the financial crisis. In no way he represents methodological consensus among the economists. Still, Smith defined the duties of government to serve public goods, David Ricardo argued for the abolition of protective tariffs, Marx sought freedom of workers from alienation, Keynes advocated to reduce unemployment, and Alfred Marshall tried to forestall the expansion of communism due to its urge for the abolition of private

property. John Locke and G. W. F. Hegel believed that private property is essential for incentives, freedom, and dignity of human beings. Friedrich List, however, laid stress on the role of nation-state in the formation of national economy.<sup>4</sup> Political economists also discovered macro-micro economic linkages affirming that each national economy's primary duty is to enhance the capacities of native people for full and productive lives. "Both mercantilism and economic nationalism reject the economic liberal's assertion that the market can maximize the welfare of collective" (Levi-Faur, 1997: 370). The collapse of Soviet system, however, removed the rival of capitalism and marked the primacy of market over the state and social projects. Free Market economists like Milton Friedman, Richard Robbins and others argue that social responsibility of businessmen is to use their resources and engage in profit making activities within the rules of the game. They believed that free markets would allow socially optimal allocation of resources and contribute to human progress.

The world system, defined by five monopolies on technology, financial control of markets, access to the planets' resources, media, and weapons of mass destruction are based on pure economic rationality (Amin, 1997:5) which failed to solve the multi-faceted systemic problems. The realities of jobless economic growth, depletion of natural resources, biodiversity losses, climate change, etc required a new economic analysis as the above approaches pushed the world's development to unsustainable destination. Joseph Stiglitz argues that a single minded fixation on growth marked the warning signs of the global financial crisis. Temporary profits in financial industry, increasing debt loans, and the real estate bubble all contributed to a false rise in our economic measurements (Faris, 2009:52). As a result, two decades of neo-liberalism hastened the "creative destruction" of monopoly capitalism, to use Joseph Schumpeter's famous phrase, for a lack of its adaptive capacity. It treated basic needs as commodities, and separated the production of goods and services from the use value by vicious exchange intervention. There is a positive side of it also. "Globalization has succeeded in unifying people from around the world—against globalization" (Stiglitz, 2006:7).

The economy of tomorrow, therefore, offers an alternative to these approaches for mutual accommodation of countries, and peoples and investment in ecology, education, health, and equity that markets consistently ignored and international development institutions applied one-size-fits- all strategy. A decade of Millennium Development Goals (MDGs) and Poverty Reduction Strategy Paper (PRSP) too registered their limits because they primarily opted for economic growth to combat income poverty while ignoring environment, distribution of wealth and income, human rights, democracy, and good governance (Martens, 2010:2). Even free trade regime defined by the WTO has led to increased gaps between rich and poor, between countries, and also within countries, thus working in favor of powerful interest groups. Similarly, no significant breakthrough has been achieved in Cancun Summit of December 2010 to substantially reduce greenhouse gas emissions under the United Nations Framework Convention on Climate Change (UNFCCC). Sustainable development requires planetary awareness that human beings are part of the nature and, therefore, its protection needs a policy of eco-labeling — espousing ecologically sensitive products and practices at multi-level governance and burden sharing

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<sup>4</sup> "As the individual chiefly obtains by means of the nation and in the nation mental culture, power of production, security, and prosperity, so is the civilization of the human race only conceivable and possible by means of the civilization and development of the individual nations" (List, 1885:88).

by developed and developing countries on the use of alternative energy sources. This means countries like Nepal need to bolster its policy structures to effectively engage in multilateral diplomacy. “Politics significantly shape economic performance because they define and enforce the economic rules” (North, 1996:353).

The scientists today are going beyond the mechanistic and disciplinary worldviews explained above. They are trying to put the parts back together in a larger system as economic activities are increasingly becoming interdependent, interconnected, and globalized (Christakis and Fowler, 2011: 302-4). In this context, the economic choice of national development is to be seen in its embeddedness in the system’s sustainability through bridging inequality, robust oversight of risks and opportunities unfolded by regional and international economy, and policy coordination. Social scientists, leaders and planners have, therefore, to think beyond their disciplines, and professions to balance the unfolding spirit of the age, needs of diverse people of various hierarchies, and nature’s resilience. The process of globalization and proliferation of secular social movements are now reconstructing the social power of people, and opening the disciplinary minds of social scientists from the closure of their knowledge spaces to the planetary system as a whole. Obviously, the solution of global ecological, food, energy, and economic crisis requires international cooperation at various levels and overcome the constraints of progress imposed by “bounded rationality,” to use the concept of Herbert Simon.

It is crucial to make economic policies context-sensitive, and deconstruct professional planners’ role as the habitual rationalizer of governments’ policies worldwide—right or wrong, by sensitizing them to become responsive to ecology, society, and people’s needs. The political role of economists has a very bad effect on macroeconomics (Hailbroner and Milberg, 1997:55) as many of their prescriptions based on the virtue of greed as propeller of economic development had heart-wrenching consequences for the poor. David Korten espouses “an economic system of locally rooted, self-reliant economics that honor true market principles, operate by clear rules maintained, and enforced by truly democratic governments, and mimic the structure and dynamics of Earth’s biosphere (2011: 1). Elinor Ostrom’s study of California, Switzerland, India and Nepal confirmed that “self-organized communities are perfectly able to manage their lands, forests, fishing resources or irrigation systems (Heine, 2009:12), govern the property in common, and evolve norms of ethical behavior. The economists have to accept the current scientific consensus which presumes that the whole is greater than sum of its parts. It reads:

“Effective commons governance is easier to achieve when 1) the resources and the use of resources by humans can be monitored, and the information can be verified and understood at relatively low cost (e.g., trees are easier to monitor than fish, and lakes are easier to monitor than rivers); 2) rates of change in resources, resource-user populations, technology, and economic and social conditions are moderate; 3) communities maintain frequent face-to-face communication and dense social networks—sometimes called social capital—that increase the potential for trust, allow people to express and see emotional reactions to distrust, and lower the cost of monitoring behavior and inducing rule-compliance; 4) outsiders can be excluded at relatively low cost from using the resources (new entrants add to the harvesting pressure and typically lack understanding of the rules); and 5) users support effective monitoring and rule enforcement (Dietz, Ostrom and Stern, 2003:1908).

The economy of tomorrow thus encompasses all three dimensions of human life—biological, social, and cosmological. It instilled an important realization that managing the economy of tomorrow requires “finding the *optimal values* for the system’s variables. If one tries to maximize any single variable instead of optimizing it, this will invariably lead to the destruction of the system as a whole”(Capra, 1996:294). Hannah Arendt defines these with three domains: labor, work, and action (1998:7)<sup>5</sup> and clarifies the essence of the evolutionary spirit of human beings to use economy as a means to a good life. The economics of peace can be attained only in an open society where informed citizens can provide checks to the abuse of state and corporate power, special interests, and internalize the liberalizing influence of democratic order, social justice, and civility as these values transcend the traditional dominance of profit over the imperatives of social solidarity, ecological ethics, and equitable relations between people and communities. A society whose economic activity is governed by a vision of national self-awareness and uses proper means for the end of sustainable development can incorporate public policy into the agenda of a self-determined choice, and constantly reform the economic process through social learning and feedback through a reciprocal interaction of policy makers’ cognition, attitudes, and changing environment.

### **How to Mitigate the Systemic Risks on Nepalese Economy?**

Regardless of circumstances Nepalese planners and decision-makers have blindly followed global patterns of economic thinking rather than evolving contextual policy suitable to its reality, basic values, and people’s needs. Annual per capita income of \$487 puts landlocked Nepal in the bracket of least developed country. Squeezed between India and China, its largely impoverished population of 30 million lives predominantly in subsistence agriculture and informal economy where the concept of modern social security rarely exists. The top five percent of households own 37 percent of agricultural land while the bottom 47 percent occupy only 15 percent of it. About 29 percent of households are *sukumbasis*, landless. It reveals the structures of power relations that are at work in the marginalization of women, poor, and Dalits from the nation’s economic order. Neo-liberal policy of the removal of subsidies on fertilizer, improved seeds, irrigation, and credit reduced agricultural productivity, increased rural poverty, and food scarcity. Over 30 percent of economically active population is totally unemployed.

The organized sector is only 10 percent where workers’ minimum rights are guaranteed. The average monthly minimum wage for workers (\$87.32: \$50 basic salary and \$37.32 dearness allowance) is barely enough to feed even a nuclear family given average annual inflation rate of over 10 percent. Daily wage for industrial worker is \$3.25 while for agricultural worker it is yet to be decided (previous one is \$1.08). Among the total employed, 46 percent of them get monthly salary, the rest are employed on contractual, weekly pay and daily wage basis. Some 78 percent of population lives on less than \$2 a day. This monetary estimation of income is inadequate to fathom poverty which

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<sup>5</sup> Labor corresponds to the biological process of the human body-- spontaneous growth, metabolism, and eventual decay. Work corresponds to the artificial world of objects that human beings create on the earth; and action, corresponds to plural human existence as distinct individuals. While all human conditions are related to politics, plurality is the fundamental essence of politics. “The mortality of men lies in the fact that individual life, with a recognizable life-story from birth to death, rises out of biological life ( Arendt, 1998: 19).

arises from a lack of opportunity for livelihoods, education, health care, safe water, sanitation, and social protection. Maternal mortality stands at 281, fertility rate 3.1, and infant mortality rate is 48. Life expectancy at birth is 68.81 years. Adult literacy rate is 53.74 %. Females' educational level must be scaled up as it helps to stabilize population, eradicate poverty, and entitle every adult to get life's possibilities. The contribution of tax to GDP is only 12 percent which is insufficient to subsidize welfare, and create accountable and responsible governance. In such a context, the government has "little incentive to build political and organizational capacity to negotiate and collect revenue and spend effectively" (Moore and Unsworth, 2007:1).

The commodity economy, increasing investment in urban banks, real estates, private schools, colleges, hospitals, and accumulation of gold, technological backwardness of society and domination of decision-making by powerful political and economic interests continue to pose structural obstacles for social transformation, and mitigate the food crisis constantly faced by about 4 million people. The two decades of neo-liberalism carried by successive Nepalese governments of all political hues not only broke the welfare state's labor-capital coordination but also trampled the constitutional vision of social justice. It brought structural shift of the economy from agriculture and industry to financial capitalism. Still, only about 26 percent of Nepalese have access over banking services due to their concentration in only urban nodes. Worse still, unproductive sector lending, concentration of loan to few powerful persons, inability of the government to expand capital base, capital flight and problem of institutional governance do not promise financial stability in the short-run and productive economic growth. Financial capitalism has made corporate and comprador classes vibrant, redistributed income and assets from the real to symbolic economy, labor to capital, the bottom to the top classes of society, and centralized population, capital and production in urban areas. It has also caused fatal social, economic, and environmental consequences for the poor. De-industrialization of real economy, deregulation of state control, slash of agricultural subsidy, and job layoffs, forced the globalization of the Nepalese workers in more than 100 countries of the world in the hope of smooth remittance flow. Now agriculture growth remains only 1.1 percent but contributes 33 percent to GDP (over \$422.54m), manufacturing sector growth is 2.7 percent while service sector contributes 52 percent to GDP. Service provision, especially in education and health, is improving as community is increasingly involved in taking decisions. But the establishment of private schools and hospitals on "economic model" producing two kinds of services and two kinds of citizens in the country with the risk of producing social and political polarization in the future.

The rent-seeking nature of privatization, and lack of self-determination of public policy have undermined the egalitarian virtues of democracy. The rapid growth of labor force (400,000 per year), its demand for productive jobs, and basic goods cannot be met without revitalizing the real economy of countryside, and productive use of the remittance brought by over 3 million workers abroad which contributes 23.4 percent to the nation's GDP. The social and economic costs of Nepalese migrant workers, and their suffering and sacrifice have not been properly estimated nor did the utilization of their skills and funds (both wage capital and investment capital) in productive sectors of the economy. Likewise, the migration of highly productive youth has caused the decline of agriculture, increased the cost of production, and turned the food surplus nation into deficit one. This is making Nepal a consumption-oriented economy, which needs to be changed (Khanal, 2011:1). The

contribution of foreign aid to GDP is only 4.7 percent. To annual government budget it accounts to 30 percent and about half of government's capital expenditure. Foreign debt burden hovers around \$3565.14m and each year debt burden is increasing beyond its ability to pay. Conversion of debt into equity is a major policy challenge. The average domestic savings rate in Nepal as a percentage of the total Gross Domestic Product (GDP) stands at 10 percent.

The acutely poor Nepal, sitting in one of the largest hydropower potential (83,000 MW) of the world, has so far produced only 697 MW of electricity (out of which leakage is 186 MW) which fails to meet even the current domestic demand of 900 MW. The country is facing acute energy crunch, 14 hour power cut every day thus hobbling the possibility for industrial development. Political strikes and increasing production costs add other woes. To boost faltering economy, and strengthen its fast losing international competitiveness, expansion of hydropower, and alternative source of energy is essential. Decline of manufacturing in Nepal squeezed employment for workers and the country's export competitiveness. The contribution of manufacturing sector to GDP is only 6 percent. The return of populism, security vacuum, and weak property rights scare both national and foreign direct investment in manufacturing sectors necessary for economic growth, technological progress, and social justice. In this context, the solidarity of sub-national units to strengthen local self-governance with the capacity and autonomy to define local social, economic, and cultural development is essential. State-building from below requires surplus region to help the deficit ones in the framework of national development.

Stabilizing climate requires schemes for converting wind, solar, hydro-power, bio-fuel, and geo-thermal power into cheap energy. This also requires reordering fiscal priorities in response to the new threats to human security (Brown, 2006: 250). Nepal's annual economic growth of 3.2 percent barely balances population growth of 2.2 percent, reduces the level of poverty of around 65 percent and ensures social peace and stability. Inequality and stifled opportunity have caused violence—individual and collective (Tilly, 2006:159) and massive shift of population from rural to urban areas which is already marred by congestion, shortage of water, poor sanitation and dirty air. Nepal's location between huge landmass of Asia-China and India, its entry into SAFTA, BIMST-EC, and WTO and stable relationship with EU have opened the prospect for increased market access of Nepalese products. But, there are many non-tariff barriers, such as environment, labor and quality standards (Khanal, 2011: 1). The increased market integration at the higher level would not be sustainable if it is not accompanied by societal goods, reduction of capital cost in production, social support of peasants and workers in environmental protection, and removal of internal barriers to national market integration. Exploration of alternative energy can enhance Nepal's security by reducing dependence on vulnerable oil supplies. Nepal would also gain political clout by boosting regional cooperation, pooling of regional resources to address post-state challenges, and fulfilling transformation.

“Markets have a strong tendency to reinforce the status quo. This means that poor countries are supposed to continue with their current engagement in low-productivity activities. But their engagement in these activities is exactly what makes them poor. If they want to leave poverty behind, they have to defy the market and do the more difficult things that bring them higher incomes—there are no two ways about it” (Chang, 2008:210). Its real problems are: inadequate infrastructures, lack of internal market integration, weak production, incapacity to supply, and poor standards of goods. As a result, import is six

times higher (\$3.6billion) than exports causing annual trade deficit of \$633.80m. External aid has become essential to cover the balance of payment deficits, remove the gap in governance between security and development, and drum up support for peace building. This means post-conflict Nepal needs leaders who have the vision and character to utilize external resources such as foreign aid, debt relief, and direct foreign investment for self-sustained development. Weak politics has created dependency culture, and caused leadership failure in constructing rules, legal premises, and supportive policy for work and wages while alarming surge of strikes rendered the authority of government ineffective. Nepalese state, therefore, needs to restore political authority through the intermediation of state institutions, solve problems of broad-based inclusive economic growth, bring opposing interest groups, and best talents to endorse the framework of social justice, and support economic actors' competitive strength in market efficiency. These are the necessary steps to heal the post-conflict society. If Nepalese government is able to stabilize its economy, it will regain freedom of policy. Future institutions require those leaders who provide "combinations of spiritual, emotional, and material rewards meeting the needs of people who are already seeking to participate in simplifying and purifying the world" (Tilly, 2006: 169). But it remains unclear where the new leadership will come from when the society is now being re-tribalized, and politics is used to extract economic rents. Strengthening national economy is essential to strengthen the state's capacity to deliver.

### **Leadership Roles in Structural Shifts**

Nepal's participation in the global modernization has led to a wider opening of plural interest groups within the country, new choices, and thereby ever-increasing competition and conflicts for resources. Democratic rules of the game require non-violent resolution of differences. The main challenge for leadership is to restructure the national economy so that resources are diverted to meet the problem of basic needs through a shift from revenue-based to production-oriented economic system.

The first task of the leadership is to expedite the production of contextual public policies to increase minimum income to all than personal preference of powerful elites to import the luxury consumption of goods for the perpetuation of social distinction, class privileges, and fulfillment of external geopolitical and geo-economic imperatives. Second, promote import-substituting and export-promoting agro-based, decentralized industries so that backward linkages of industry with agriculture can be modernized. This helps national industries to support agriculture's ability to address food crisis, more employment, and urban-rural linkages. They can also consolidate the forward linkages with trade competitiveness. Establishment of import-substituting industries based on national resources holds competitive potential than those established in industrial corridors of southern Nepal which rely on the import of Indian raw materials, processes through Indian migrant workers, export to Indian markets, and facilitate capital flight. They survive on the marginal profit of custom differences, and contribute less to national economy (Sharma, 2011:5). Replacement of Nepalese workers with foreign workers and native businessmen with foreign ones does not promise for sustainable development. So long as the nation's survival rests on exporting labor and raw materials and the state cannot control price of internal production it cannot develop competitive spirit (Panday, 1987: 99). Third, disperse public goods from the capital city, Kathmandu, to ailing periphery in small towns, rural and remote areas through the state, private sector, and community organizations with

competitive price mechanism by abolishing the prevailing syndicate system which has increased the costs of supply (Dahal, 2010:143-45). Fourth, maintain regional balance in taxation, equity, and redistribution of development through decentralization measures based on the principles of subsidiarity. Fifth, promote a judicious balance of the rights of majority and minority groups of society in a model of communitarian action. And finally, optimize the interest of subsidiary identity oriented forces who are demanding multi-nature of resource claims—self-determination, prior use rights on land, river, and forest and ethnic, geographical, linguistic and cultural determinism of politics.

Political parties of Nepal have not developed a habit to become system-sensitive, and provide civic education to citizens for democratic participation in wealth-creation, institutionalization of policy dialogues between government and society, and rebuilding participatory institutions for self-governance. Rather they in a competition with rival parties over issues, interests, identities, and values continue to instrumentalize class, caste, ethnicity, region, religion, and territoriality for the expansion of electoral constituencies, caused enlightenment deficit, and fuelled the sources of multi-structural conflicts. Obviously, these traits mark the coming crisis of Nepalese citizenship and the erosion of national identity. Pluralistic society often requires dialogue, interest reconciliation, and consensus on national initiatives.

### **Change Agents for Social Justice**

The Nepali state's fundamental economic objective is to "transform national economy into an independent, self-reliant, and progressive economy through equitable distribution of economic gains based on social justice and elimination of economic inequalities." Political parties in the CA have agreed to set up an economy governed by "independent development of public, cooperative and private sector and their contribution to national development." Nepal's political system developed through the interplay between negation of rival, and segmented incorporation of dynamic sectors of society such as Dalits, women, Maoists, Madhesis and Janajatis has replaced the old patron-Pancha relationship by new patron-client ties. A property right is an incentive for economic performance. But, due to weak state and competing armed groups law enforcement on property rights has become difficult in Nepal. As the marketization process introduced the differentiation of social classes and interests, newly constituted institutions and federations of women, *Janajatis*, indigenous *Tharu* people, Dalits, youths, etc openly contest the legitimacy of the new order created by the Interim Constitution which, by definition, could not satisfy the legitimate aspirations of many without structural reforms. The social contract, a workable Nepalese constitution of future, to become legitimate in people's eyes requires democratic accountability of leadership, and social equity for the poor. What all Nepalese political parties have in common is the goal of social justice, a justice which is also the lynchpin of social democracy. Similarly, the transnational penetration of policy reform options, and the global development consensus for shared growth hold the potential to standardize social welfare state. The economy of tomorrow, therefore, should focus on: welfare state, social market economy, funding of social security system, green growth, good governance, rule of law and human rights, and upliftment of marginalized.

### *Welfare State*

Unified “legitimate monopoly” on the power of state requires demilitarization, democratization and integration of armed groups into civilian life so that it can prevent the ecological, economic, and demographic sources of conflict. The articulation of the role of state in national security, rule-enforcement, and political stabilization for the improvement of personal security in every aspect of Nepalese lives is necessary for the creation of business-friendly environment, and peace building. Nepal spends only about 3 percent of its GDP in social security including health. The crucial challenge is: How to make the poor stakeholder of the state? The welfare state is a social investment state that provides the needy with new opportunities to help themselves (job training, new qualifications, and support for self-help) (Meyer, 2000: 52). The Scandinavian states provide active labor market policy, extensive redistribution through robust public budget management, comprehensive protection against social risks, and life-long learning (Jochem, 2011:1). Welfare state is based on a compromise between internal welfare needs of people and the imperative of liberal international economic order. It also acts as a buffer against the negative effects of globalization. “As political survival and internal peace are more defined in economic terms, states have become responsible for economic transformation” (Evans, 2005:122) particularly their roles in social equity, and environment.

Nepal’s Interim Constitution has expanded more social rights to the people, such as right to work, health, food sovereignty, residence, clean environment, etc aiming to create a class-neutral, socially and ecologically embedded state, institutionalization of tri-partite dialogue, expansion of workers’ rights, welfare measures, social inclusion, and sustainability. These measures can be achieved only if there is a robust, inclusive economic growth to finance substantial social development, and social security. The reorganization of peasants and workers into cooperatives, saving and credit institutions, consumers group, Youth and Mothers’ Groups for small-scale enterprises, learning centers, etc and some form of autonomy can liberate them from hierarchical control, hopeless alienation, gender inequality, and poverty and change the rural power structure. Retraining and education opportunities upscale the Nepalese workers’ ability to compete in new job markets created by technological innovation, trade, and finance, and enable them to organize collective action at various levels.

### *Social Market Economy*

Nepal is undergoing a fundamental transformation in its socio-economic structures and in its links to the international system. The political discourse framed by the CA indicates a version of the social market economy, a third way, between Anglo-Saxon oriented Washington Consensus-based development strategy which Nepal has practiced so far, and the Chinese model built on state control. The formal model has “paid too little attention to issues of equity, employment, and competition, to pacing and sequencing of reforms or how privatizations were conducted” (Stiglitz, 2006:17). In contrast, the dramatic poverty reduction of China is mainly attributed to investment in agriculture sector, education, health, rural electrification, equitable distribution of land rights, regional economic decentralization, and high female participation in the labor force (Bardhan, 2010:7) than its integration in global economy. But, the Nepalese elites are less attracted with the Chinese model of political economy.

The third way social market economy is the most appropriate choice for Nepal because it can provide a common political ground between left-right divide, a mechanism

of resolving contradictions within capitalist democracy and better minimum wage to support lifetime capability enhancement and welfare (Mishra, 2010:8) of Nepalese people. It does not subordinate politics and government to the dynamic properties of market or class imperatives. Instead, it allows politics to: coordinate market for common good, maintain a balance between productivity and social aims, support the welfare state, and provide people all five sets of human rights— civil, political, social, economic and cultural, inclusive political process and agreement on social justice (Sperling, 2005:22) as they are embedded in Nepal’s constitution, plan documents and international obligations. Defense of civic freedom, together with public ownership of the means of production in vital areas, can temperate the class, gender, regional and digital divides, and capture the synergy of development (Acharya, 2011:14).

The politics of social market economy in Nepal has to enable financing these rights and “reclaim the state for society as an instrument to regulate and contain disembodied capital” (Levitt, 1995:14) which has only boosted the returns of financial capital, and knowledge capital. The ability of peasants and workers to move to co-determination of public policy based on new social contract in Nepal requires linking constitutional law to public policy, and the operationalization of the *right to development* from bottom up by engaging people in planning, administration, budgeting, and monitoring of development. In this sense, the new economic policy aims to rectify “class, caste, ethnic, gender and regional disparity” articulated in the Interim Constitution of 2007 by reversing rising economic insecurity, and income inequality, and curbing the rewards for unprofitable, and unethical corporate behavior, decentralization of decision making power to encourage the participation from the grassroots in the entire project cycle, and implementation of “a common development concept” articulated in the peace accord. This concept presumes the conservation of biodiversity, and ecosystem, policy coordination among various actors, and financing distributional aspects of governance. A unified labor power based on the social solidarity of public interests can help maintain democratic control over economy, peaceful accommodation between capital and labor, and prevent workers’ race to the bottom.

Peace-creating and welfare-enhancing system cannot be created by just a growth in per capita income, helping favorite oligarchs, bank defaulters, tax-evaders, illegal privatizers of profit-making public industries, consultants, and clients who do not have any accountability for the results of mal-development. A UNDP report entitled “*Illicit Financial Flows from the Least Developed Countries: 1990-2008*” revealed that \$9.1 billion in capital was siphoned out of the country during this period from Nepal. On an average \$480.4 million went out of the country annually earning 6<sup>th</sup> position among the Least Developed Countries. Post-conflict economics of peace requires improving human development indicators, ensuring that climate adaptation funds reach poor people especially in the areas of their vulnerability to climate variability, disaster risk reduction, and build synergies with groups working on gender, indigenous people, Dalits, workers, food security, climate change, fragility of mountains, and disaster preparedness. The heating of global temperature is viciously melting Himalayan glaciers, looming glacial lake bursts. Nepal is also facing deforestation, erosion of fertile soil, decreased productivity, loss of biodiversity etc. It is threatening the livelihoods of people in various ecological zones, and creating social fractures between classes, and generations. A poverty eradication effort that is not accompanied by an earth restoration effort is doomed to fail (Brown, 2006: 256). The solution of these problems requires alternative economic measures that supports

programs and projects for environment-sensitive social enterprises “which are holistic and enhance the value of reciprocity, equity, solidarity, and interconnections” (Corpuz, 2008). Nepal has already submitted its National Adaptation Program of Action to UN Framework Convention on Climate Change (UNFCCC) whose execution requires at least \$350million.

### *Funding of Social Security System*

The welfare objectives such as economic growth, full-employment, and social development have become the responsibility of the elected government though it can engage the private sectors, civil society, and international community in achieving them. For the dignified work, social security scheme has been defined by the International Labor Organization (ILO) Convention 102 as a rights of workers and they are entitled to get unemployment benefit, health care, sickness, old age, accident benefits, care of family and children, maternity protection, disability, dependency support, etc.<sup>6</sup> In Nepal, for social security permanent worker invests 10 percent in provident fund and one percent in a separate social security. The employer adds overall 25.38 percent (10 percent to provident fund, 8.33 percent for gratuity, 2.05 percent for medical treatment, and 5 percent for maternity expense, and other contingencies). The state’s share in it becomes 25.38 percent. If the proposed social security scheme is based on ILO Convention 102 it has to adopt four basic schemes—medicine, accident coverage, maternity protection and unemployment insurance (Rimal, 2011).

On social security, Nepal has adopted allowance for senior citizen above 70 years, single woman, widow above 60 years and the disabled; financial grant for the poor children of Karnali and Dalits; Education-For-All scholarship for children of Dalits, disabled, marginalized, conflict-affected, and children of Karnali; maternity protection facility in hospitals; Karnali Employment Scheme for unemployed; modest financial support for the 10 disappearing tribal groups; and health facility twice for senior citizens above 60 years (Rimal, 2011). These schemes are necessary to complement the household income for the fulfillment of basic needs and keep the life going but not sufficient to lead a life of dignity, not even sustainable for the long-run given the continuation of stagnant economy, and inability to break the traditional mode of production, appropriation, domination and control. The plight of domestic workers is wretched as ILO 2010 report “Decent Work for Domestic Workers,” considers them as “overworked, underpaid and unprotected.” Without social security, their lot cannot be improved. The main question is: how can the state and trade unions maintain social solidarity between the informal and informal sectors and compete with their new rivals NGOs, civil society, and identity-based various groupings? How can trade unions and Employers’ Council transcend their class interest to work together for the common interests of all Nepali citizens for sustainable development?

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<sup>6</sup> Nepal has not yet settled the discourse about social security. Among the three social dialogue partners only the trade unions are pro-actively engaged in defining the social security and have proposed to cut one percent of their salary for social security fund which can benefit 2 million workers. But the tripartite arrangement should bring all 10.7 million Nepalese workers under this scheme. For the democratization of labor market relations a tripartite body of the government, employers and trade unions have drafted separate laws and working to integrate all of them with revision. They are: Labor Act 2048 BS for the creation of flexible employment environment; New Social Security Law and Unemployed Concession Act to protect workers from unnecessary hire and fire; Revision of Trade Union Act 1949 to institutionalize social dialogue; and National Labor Commission Act for easy and speedy adjudication of justice (Rimal, 2011:10).

### *Green Growth as Sustainable Destination*

The post-global economic crisis agenda of an economy of tomorrow is legislative action in the area of environmental sustainability, control climate change and use alternative energy sources to break the vicious heating of atmosphere by about 1 degree Fahrenheit in the last century. It is scorching fields, reducing water level, and acceleration of the fast melting of Himalayan glaciers, risks of lake burst and the rise of sea level. Solution to these requires taking into consideration efficiency of resources, low carbon emission, sustainable energy sources and production system. It articulates the restoration of the economy's natural support system, stabilization of population growth, wage-led economy and eradication of poverty. The nature's ecosystems are cyclical. The waste of one become foodstuff and fodder for the other. In contrast, industrial system is linear (Capra, 2004:204) as the release of its wastes unleashes chain reactions which are too much for the planet to absorb.

Economy is also discriminatory causing over accumulation, exploitation of people, breakdown of local communities and ecosystem, and feral conflicts for resources unless it is properly regulated by the state. In this context, mitigation of climate change requires capacity building, transfer of technology and resources for adaptation of new green technologies and reforestation. Nepalese planners have to rebuild its faltering economy and manage hydropower, forestry, biodiversity, and engage in disaster preparedness. Shifting the tax burden away from ecological products and subsidy to alternative energy resource can alter consumer behavior as well as contribute to mitigation and adaptation measures. Market gains from trade and investment can be "achieved through increased integration between macroeconomic policies and labor market and social policies, for example, by making employment creation a targeted macroeconomic objective alongside low inflation and sustainable public budgets" (Somavia, 2011:9).

### *Good Governance, Rule of Law and Human Rights*

Strengthening of democratic processes and institutions, rule of law and government's accountability in effective service delivery can improve the conditions of human rights. The democratic framework for people's participation can make the governance accountable and transparent, broaden partnership, and exchange experiences and ideas. Nepal has adopted three measures so far: stakeholders' participation in development policy making, public engagement, and participation in constitutional dialogue, and inclusion of the right to information in the constitution. Citizens' right to information is instrumental for controlling corruption and transparency of decision making. The six pillars of second Three-Year Interim Plan of National Planning Commission are:

- Achieve pro-poor and employment-generating, sustainable, and broad-based economic growth with the concerted effort of all sectors-the state, private sectors and civil society;
- Infrastructural development with due consideration to federal structure of the country, and provincial economic growth;
- Social inclusion, and social justice-oriented development for sustainable peace;
- Socio-economic transformation of the country by strengthening financial and social services;
- Result oriented development works to support good governance and effective service delivery; and

- Strengthen economic growth and its sustainability by streamlining development of private and civil society sectors, industrialization, business, and other service areas in the national development.

### *Ensuring the Rights of Marginalized Population Working in Informal Sector*

Support to agriculture beefs up the informal sector, small enterprises, and artisans. The poor in informal sector needs access to land, water, credit, seeds, education, and technology. These are also the basic necessary condition for better exchange relations between urban and rural areas, and formal and informal ones for social transformation. A basic reform in public revenue by progressive taxation with regard to the integration of informal sector workers in social security and access to education, health, and income of marginalized groups are essential preconditions to dynamize the informal sectors as they equally contribute to national economy like organized sectors, and mediate between the citizen and the state. Grassroots civil society, NGOs, community organizations, and local federations express various needs of people, conscientize them about their rights and duties in a broader national and global framework of social justice, and provide alternative services from the state agencies and social cooperatives, the latter has the potential to augment collective form of capital ownership. The increased rights of women and their representation along gender equality will erode traditional institutions' gender and caste biases, weaken the elite capture of resources, and make local economy competitive in the future. Budgetary allocation to agriculture, coordination on agricultural trade, investment, and financial markets and increase in the productivity of farmers can lower consumer prices, and increase the income of rural population.

### **Conclusion**

The economy of tomorrow will have to be compatible with nature, culture, society, and life-world and also inspire social solidarity of international community. In other words, only a system-sensitive economic policy can construct effective response, and scratch out a better future based on a balance of *eco-centric economy* with the satisfaction of human needs. Crisis occurs at a time of big technological change as majority of citizens cannot exploit its benefits due to its selective application by *ego-centric* capitalistic elites, reduces the wages of unskilled workers, and even limits politics to clientalist network. In this context, social learning is essential to respond creatively to organizational change, and social transformation. Nepal is craving for a national leader who could stand above partisan instinct, set standard for others to strive for, exalt historical achievement of statehood, and muster legitimacy for the implementation of vital national tasks: a new constitution, structural reforms, and durable peace based on the democratic aspirations of citizens. Constitution limits the oppression of opposition, and minorities, and total seizure of private property through high stake redistributive struggles through the optimization of interests of various stakeholders in the ecological, economic, and political system.

Change in the nature of politics from divide and rule, command, and control of downtrodden to participation, communication, and coordination has marked a shift of economy from hierarchal operation to partnership. It has unfolded new opportunities for workers to be adaptable to change in technology, communication, industry, and society. Sustainable development requires bold policy innovation in developing renewable energies, not just adoption of external policy prescriptions regardless of contextual relevance, as

current opening has provided unusual freedom to push bold development policy measures and hold the governance accountable for securing rights of people in consonance with sustainable production process. While the private sectors can be the locomotives of innovation, investment, and economic growth, the public sector as strategic area should seek inclusive social transformation based on interest reconciliation. High level investment in localized production, employment opportunities, social protection, and safety nets can enable Nepalese people to take risks and make prudent choice beyond *homocentric economy* that serves the same class of elites and fosters a culture of collective survival of all living species. The priorities of post-conflict Nepal are still connectivity of the recovery and reinvestment, sustainable livelihoods, education, adaptation to climate change, infrastructural development, alternative energy, communication, decentralized production, and distribution measures to satisfy *survival, well-being, and spiritual needs*<sup>7</sup> (Galtung, 1996:129) of people. The resolution of ecological crisis of today requires an economy that moves beyond ego-centric, homocentric, anthropocentric calculation, cares the nature, poor, and future generation and system-integrative in nature.

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<sup>7</sup> Galtung argues that we can summarize these needs under the "headings of *identity*, something with which to identify in nature, personal, social, world, time and cultural spaces, giving meaning to life; and *freedom*, defined partly as mobility in world space, social space and inner, personal space; with the possibility of making *choices*" (1996:129).

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