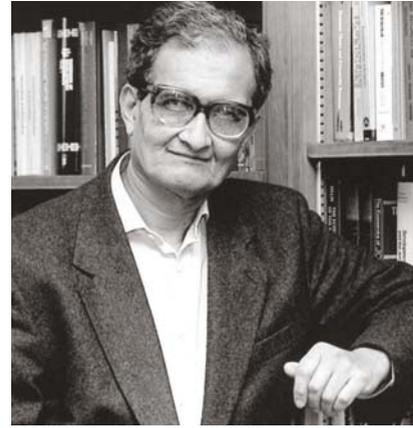


The challenges of development

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I cannot, I fear, claim to know the world of central banking well. Indeed, when the invitation to speak at this meeting came from Malcolm Knight, I did wonder whether Malcolm really knew how ignorant I am about banking. But since Malcolm and I coincided at the London School of Economics, I thought he must know that and there must be some “intelligent design” behind his asking me to give this lecture - certainly no evolutionary selection there, more like the survival of the *unfittest*. Maybe the design is to expose central bankers to the thoughts of distant people who are not contaminated by banking.

In fact, I too am a little contaminated by central banking through close friends, who became central bankers - I think of I.G. Patel, Manmohan Singh and Bimal Jalan who became sequentially the Governor of the Reserve Bank of India. Manmohan Singh has also established something that all of you should know, that being a central bank governor can be a good way of moving to the Prime Ministership of the country. In the case of another close friend who is the governor of a central bank now, I look forward to seeing Mervyn King's move, in the fullness of time, from Threadneedle street to Downing Street. Number 11 could be, at some date in the future, optimal, but Number 10 might be, as they say, “even better than optimal.”

Despite my own distance from central banking, which has not been reduced through some kind of osmosis, one thing I do know is that banks and the central bankers also live in the same problem-ridden globe that we all inhabit, and have to address the same challenges that the world faces. It was suggested by Malcolm Knight and Philip Turner

that I might perhaps comment on what the challenge of development looks like, nearly a quarter century after I speculated on that subject in an essay called, "Development: Which Way Now?"¹

Encouraged by this suggestion, I went back to my old essay. What the essay mainly did was to argue for taking a much broader view of development than was then common, seeing progress in terms of expansion of our freedoms and the enhancement of human capabilities (rather than merely the growth of the quantity of objects of convenience as reflected in the gross domestic product or the national product). That particular skirmish may not have ended yet, since these partially misleading indicators of success still receive far too much attention, but at the level of intellectual recognition the world has moved on towards paying more attention to much broader indicators of economic success. Perhaps the most influential role here has been played by my old Pakistani friend Mahbub ul Haq, now sadly deceased, who worked for a radical broadening of perspective through the visionary *Human Development Reports* which he initiated and led, and whom I was very privileged to advise throughout his stewardship of this extraordinary United Nations programme.

One of the changes that has occurred over the recent years is a real move away from the view that development is a very severe, austere and largely painful process, which so dominated the thinking of development elite and the international policymakers earlier on. Policy choices that were powerfully influenced by seeing development as a "fierce" process, with a call for "blood, sweat and tears" (to use Winston Churchill's rousing phrase used in a completely different context), has given way, happily - at least recognising the possibility that it is a much more friendly - a more supportive - process. It was ridiculous when the cost of delivering extremely useful social support to precarious people, in the form of nutritional assistance, or free basic education, or subsidised health care used to be put down as luxuries that poor economies could not afford, rather than as programmes for which resources would have to be seriously sought.

It should not have been so difficult to generate this understanding, since that point was discussed even by Adam Smith more than two centuries and a quarter ago. Even though some alleged admirers of Adam Smith do not give the impression that they have ever read

beyond the page and a half on the butcher, the baker and the brewer, which explained why self-help is quite adequate to make people keen on having a little exchange (a fairly modest and homely point, as Smith himself clearly thought), it was the same Smith who went on to discuss how socially financed well-chosen public services can make people more capable of helping themselves and others: "For a very small expence the publick can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education."

When the priority - explicitly stated or implicitly assumed - of seeing development in terms "blood, sweat and tears" is subjected to a more informed critical scrutiny, whether by economists themselves, or the Fund, or the Bank, or - for that matter - the national central bankers (as has certainly become more common now), the cultivated harshness of some of the older policies cannot but receive more challenge. George Bernard Shaw voiced the suspicion (this occurs, incidentally, in the Preface to *Man and Superman*), that "an Englishman thinks he is moral when he is only uncomfortable" (there may be a touch of Irish rebellion there), but policymakers of economic and financial policies have reason enough to stop assuming that shortrun harshness must bring plentiful rewards in the long run.

If a fuller recognition of the role human freedom and capability in the process of development was one of my hopes a quarter century ago, another hope was a greater recognition of the role of democracy in particular in the fostering of development. The connection is, of course, partly constitutive, since democracy is intimately connected with political freedom, and if freedom in general is important, then democracy must contribute something directly no matter what indirect effects it may have. For many years after I published that paper and several others on related subjects, I used to face an immediate challenge based on some fairly casual statistics, one of which took the form of arguing that the low growth of the Indian economy clearly shows that democracy is hostile to economic development. It was difficult to be persuaded that this was a cause-effect relationship since economic growth must depend on the friendliness of the economic climate rather than the brutality of the political regime. But now that the Indian economy is growing much faster (and India has become the new bogey man allegedly swallowing up American and European jobs),

¹ The Economic Journal, 93 (December 1983), reprinted in my *Resources, Values and Development* (Cambridge, MA: Harvard University Press, 1984).

those who argued on the other side do not seem to be in a great rush to acknowledge that what has changed is the previous collection of severely counterproductive economic policies, not the openness and vitality of the political democracy in the country.

Since China is frequently compared in this respect with India, and China continues to grow even faster than India's quickened tempo of growth, perhaps I should also comment briefly on that comparison. Consider life expectancy. When, in the late 1940s, China had its revolution and India became independent, China and India had about the same life expectancy at birth, well below 40 years. But post-revolution China, with its egalitarian politics and continued public commitment to improve health care and education (a commitment that was carried over from its days of revolutionary struggle - and there was an element of popular participation in that too), brought a level of dedication in radically enhancing schooling and health care that the more moderate and conservative Indian administration could not at all match. Sure, China did also have the largest famine in history during 1958-61, when the so-called "Great Leap Forward" failed miserably. But the country pulled out of that crisis soon enough, and by the time the economic reforms were introduced in 1979, China had a lead of about 14 years over India in longevity. The Chinese life expectancy, then, was about 68 years, compared with India's 54 years - almost a decade and a half less.

Then the Chinese had the economic reforms of 1979, when the Chinese economy surged ahead and grew much faster than India's more modest performance. However, despite China's much faster rate of economic growth, the rate of expansion of life expectancy in India has been about three times as fast, on the average, as that in China, since 1979. China's life expectancy, which is now just about 71 years, compares with India's figure of 64 years, so that the life-expectancy gap in favour of China has been halved to 7 years, over the last two and a half decades.

Of course, note must be taken of the fact that it gets increasingly harder to expand life expectancy further as the absolute level rises. But this can hardly be the reason behind China's stagnation in life expectancy, since China's life expectancy of 71 years is still very far below the figures for many countries in the world, where the numbers

stretch into the 80s. Indeed, China's longevity is lower even in comparison with parts of India.

At the time of economic reforms, the Indian state of Kerala, with a similar commitment to public health that China had in the pre-reform period, had a similar life expectancy to China's - about 67 years - at the time of the Chinese reform. By now, however, Kerala's life expectancy, which had already reached 74 years by 1995-99 (the last official report) and is now estimated to be about 76 years or so, is very considerably above China's. Even though Beijing and Shanghai, as city provinces, outdo Kerala with its 30 million urban-rural mix, most provinces of China have life expectancy figures far lower than Kerala's. Going further, if we look at specific points of vulnerability, the infant mortality rate in China has declined very slowly since the economic reforms, whereas it has continued to fall extremely sharply in Kerala. While Kerala had roughly the same infant mortality rate as China - 37 per thousand - at the time of the Chinese reforms in 1979, Kerala's present rate, 10 per thousand, reached already by 2002, is a third of China's 30 per thousand (where it has stagnated over the last decade).

There are three distinct reasons for this difference, and each has some connection with the relevance of democracy. First, even within the economic field, the poverty-removing character of Chinese economic expansion was much sharper in the early post-reform period than it is today. It cannot, of course, be doubted that this global integration and the related expansion of urban incomes have brought a great many rewards to the Chinese people. And yet the poverty-reducing character of Chinese economic growth has relatively slackened. Furthermore, there has been a big surge in Chinese economic inequality - much sharper than what embarrassed the BJP-led Indian government which was defeated and lost office in the democratic elections held in India in 2004.

Second, along with the political change that ushered in the economic reforms came a slackened social commitment to public health care. It led, in particular, to the eschewal of free public health insurance provided to all before the reforms. There was now a need to buy a private health insurance at one's own cost (except when provided by the employer, which happens only in a small minority of cases). Interestingly, this very retrograde movement in the coverage of health

care received little public resistance - as it undoubtedly would have met in any multi-party democracy.

Third, democracy also makes a direct contribution to health care in bringing social failures into public scrutiny. India's health services are quite terrible, and it deserves the public criticism it tends to get. But the possibility of such intense criticism is also a social opportunity - even compulsion - to make amends. The informational and incentive roles of democracy, working mainly through open public discussion, can be pivotally important for the reach of public policy. Even the Chinese famines of 1958-61 (I argued in the earlier paper) reflected the absence of a democratic engagement, but more recently the easy abandonment of public health insurance as well as the immunity from criticism that Chinese health services often enjoy could be linked directly to the lack of multi-party politics. It is the limitation of this role that came most sharply to attention in the context of the SARS epidemic of 2002-3. Although SARS cases first appeared in Southern China in November 2002 and caused many fatalities, information about this new deadly disease was kept under a lid until April 2003. This is a small example, but the general penalty of the lack of competitive democracy is much more pervasive than that.

These issues are perhaps particularly worth stressing in the context of discussing the challenges that Africa faces, because no continent has suffered so much from the cultivated abandonment of democracy that went with the cold war that was fought over that ill-treated continent. Africa, which I first visited in 1963, and which seemed then to be fully poised to further flourish on the new roots of democracy, already visible then, soon succumbed to a cluster of military rulers with powerful international supporters. Any military strong man who displaced a legitimate government would get support from either the Soviet Union, or the United States and its allies, depending on which side the new military rulers took. And yet as Nelson Mandela noted in his *Autobiography*, he learned about democracy from the consultative mode of governance that Africa has known well from its own past.

Mandela describes how impressed and influenced he was, as a young boy, by seeing the democratic nature of the proceedings of the local meetings that were held in the regent's house in Mqhekezweni:

Everyone who wanted to speak did so. It was democracy in its purest form. There may have been a hierarchy of importance among the speakers, but everyone was heard, chief and subject, warrior and medicine man, shopkeeper and farmer, landowner and laborer.²

Mandela's long walk to freedom began at home, and the recognition of the importance of public reasoning in democratic politics remains extremely relevant today.

I end with a final point. Given the centrality of public discussion in democracy as public discussion, the relationship between a democratically elected government and central banks with their expertise and qualified autonomy must be extremely important. The central bank and government is a subject that is critically important for democratic practice. For democracy is not just about voting, but also about plural perspectives. Central banks are not only public agencies with special roles in financial leadership and monetary policies, they are also important parts of the general political landscape of a country. Without neglecting the specialised roles of central banks in financial and monetary spheres, I would like to emphasise the importance of the voice of central banks as informed participants in public reasoning on a much wider range of economic and social problems. Democracy is not just majority rule, and sustaining a rich plurality of perspectives and arguments can be critically important for the successful practice of democracy. Even the controversial issue of the autonomy of central bankers relates to this question.

You would notice that I have dragged the central bankers down to my own level, as people who have to be committed to arguing. I am not, of course, arguing for central bankers to become obsessively "central talkers." But I would submit that they do have an important role in democratic public reasoning, in addition to their specialised tasks in monetary and financial affairs. If democracy is "government by discussion" - to use the old Millian phrase - central banking may well involve more than banking.

² Nelson Mandela, *Long Walk to Freedom* (Boston: Little, Brown & Co, 1994), p. 21.